RESULT UPDATE

**DLF**

Q4 miss; sluggish operations persist

India Equity Research | Real Estate

DLF’s residential new sales continued to remain lackluster in Q4FY17. We expect this to continue in ensuing quarters as well given sustained slowdown in its mainstay Gurgaon market coupled with limited visibility on new launches. Though rental business is robust, meaningful uptick in annuity income is likely only post FY19 when upcoming assets become operational. Balance sheet deleveraging hinges on CCP5 deal valuation. We have lowered cap rates to value DLF’s rental business in line with recent deals and have narrowed discount to our NAV to arrive at our revised FY18 target price of INR185 (earlier INR140). Maintain ‘HOLD’.

Q4FY17 result miss; operations disappointing

DLF reported revenue of INR22.2bn (down 12.6% YoY, up 8% QoQ), driven by POCM-based revenue recognition in ongoing projects. EBITDA margin compressed 4ppt YoY (15ppt QoQ) to 32% due to one-time cost escalation in projects nearing completion, we believe. Net profit rose 46% QoQ to INR1.4bn (loss of INR1.8bn in Q4FY16) versus our estimate of INR1.9bn. Net debt increased by INR7bn QoQ to INR251bn. **Operations:** Net new sales for Q4FY17 were INR4bn (up 48% QoQ, down 65% YoY) driven by sales in DLF Phase V projects, while for FY17 sales were INR11.8bn (down 62% YoY)—lowest in past 8 years. Net leasing for Q4 was 0.64msf (up 166% QoQ, 60% YoY), while for FY17 it was 0.88msf (down 15% YoY).

Operational scale-up challenging

DLF expects sluggishness in residential demand to persist in FY18 and is focusing on completing its ongoing projects resulting in negative operating cash flows of INR5-7bn per quarter. It does not plan for any meaningful up-tick in new launches until demand revives and RERA gets implemented. DLF’s mainstay, Gurgaon market, remains sluggish and we do not expect uptick in demand for the next few quarters. The company’s rental business remains healthy with steady rise in rents, though the next significant uptick in rental income is likely only post FY19, when ongoing assets become operational. Operational scale-up, hence, appears challenging.

Outlook and valuations: Muted outlook; maintain ‘HOLD’

We expect muted operations for DLF in coming quarters. Valuation of promoter stake sale in rental assets, improvement in Gurgaon market and new launches are key stock catalysts. Earnings-based valuations appear rich versus peers – 37x / 33x FY18E / FY19E EPS (ex-CCP5 deal impact). We maintain ‘HOLD/SU’.

**Financials**

<table>
<thead>
<tr>
<th>Year to March</th>
<th>Q4FY17</th>
<th>Q4FY16</th>
<th>% chg</th>
<th>Q3FY17</th>
<th>% chg</th>
<th>FY16</th>
<th>FY17E</th>
<th>FY18E</th>
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<tr>
<td>Revenues</td>
<td>22,252</td>
<td>25,465</td>
<td>(12.6)</td>
<td>20,579</td>
<td>8.1</td>
<td>92,599</td>
<td>87,687</td>
<td>92,117</td>
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<tr>
<td>EBITDA</td>
<td>7,102</td>
<td>7,133</td>
<td>(0.4)</td>
<td>9,578</td>
<td>(25.9)</td>
<td>38,664</td>
<td>38,149</td>
<td>41,867</td>
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<tr>
<td>Net Profit</td>
<td>1,421</td>
<td>(1,796)</td>
<td>(179.1)</td>
<td>976</td>
<td>45.6</td>
<td>5,708</td>
<td>7,496</td>
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<td>EPS (INR)</td>
<td>0.8</td>
<td>(1.0)</td>
<td>(175.2)</td>
<td>0.6</td>
<td>38.2</td>
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<td>4.2</td>
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<td>P/E (x)</td>
<td></td>
<td></td>
<td></td>
<td>46.1</td>
<td>37.1</td>
<td></td>
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<tr>
<td>P/B (x)</td>
<td></td>
<td></td>
<td></td>
<td>1.2</td>
<td>1.2</td>
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<td>ROE (%)</td>
<td></td>
<td></td>
<td></td>
<td>2.1</td>
<td>2.7</td>
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**EDELWEISS 4D RATINGS**

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<th>Absolute Rating</th>
<th>HOLD</th>
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<tr>
<td>Rating Relative to Sector</td>
<td>Underperform</td>
</tr>
<tr>
<td>Risk Rating Relative to Sector</td>
<td>High</td>
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<tr>
<td>Sector Relative to Market</td>
<td>None</td>
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**MARKET DATA (R: DLF.BO, B: DLFU.IN)**

- CMP : INR 194
- Target Price : INR 185
- 52-week range (INR) : 216 / 101
- Share in issue (mn) : 1,784.0
- M cap (INR bn/USD mn) : 346 / 5,370
- Avg. Daily Vol.BSE/NSE(‘000) : 10,628.3

**SHARE HOLDING PATTERN (%)**

| Promoters * | 74.9 | 74.9 | 75.0 |
| MF’s, FI’s & BK’s | 0.7 | 0.8 | 1.2 |
| FI’s | 18.2 | 17.4 | 17.0 |
| Others | 6.2 | 6.9 | 6.8 |
| * Promoters pledged shares (% of share in issue) | NIL |

**PRICE PERFORMANCE (%)**

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<tr>
<th>Stock</th>
<th>Nifty</th>
<th>EW Real Estate Index</th>
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</thead>
<tbody>
<tr>
<td>1 month</td>
<td>0.2</td>
<td>2.2</td>
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<tr>
<td>3 months</td>
<td>30.7</td>
<td>6.4</td>
</tr>
<tr>
<td>12 months</td>
<td>58.7</td>
<td>19.8</td>
</tr>
</tbody>
</table>

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May 26, 2017

Edelweiss Securities Limited

Edelweiss Research is also available on www.edelresearch.com,
Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.
**Raise target price; maintain ‘HOLD’**

We have revised up our FY18 target price to INR185/share (earlier INR140) owing to following triggers:

1. We have updated our model to account for latest disclosures related to ongoing projects as well as future plans.

2. Lowered cap rates for valuing its rental assets from earlier 9% to 7%. This is based on some of the recently announced deals involving stake sale in rental assets which have happened at sub-8% cap rates as well as to account for reduction in risk free rates (down 80bps over past 1 year).

3. Discount to NAV lowered from earlier 40% to now 30%. This is mainly to account for: a) prospects of balance sheet improvement post CCPS deal completion; and b) overall compression in NAV discount for the sector (24% currently – down 20ppt / 27ppt in past 3M/YTD).

4. Lowered discount rate to 14% from 15% earlier to account for lowering of borrowing cost coupled with reduction in risk free rate.

Consequently, our new FY18 NAV estimate for DLF is INR264/share (earlier INR234/share), to which we apply 30% discount (earlier 40%) to arrive at our new target price of INR185 (earlier INR140).

**Maintain ‘HOLD’**: We maintain ‘HOLD’ on DLF in view of the following:

1. **DLF’s residential new sales have seen structural slowdown** over the past 3-4 years and this continues to persist – new sales of INR11.8bn in FY17 (down 62% YoY). This, we believe, is due to soft residential demand in its mainstay Gurgaon market coupled with very few new launches (in Gurgaon as well as other markets). Importantly, we do not expect Gurgaon residential demand to recover over the next 1 year given substantial investor held inventory and little visibility of capital value appreciation.

2. **DLF remains cautious about new launches across markets**, in view of soft demand outlook. Additionally, with RERA yet to become operational in Gurgaon and other key markets where DLF has presence, new launches will be delayed given requirement of compulsory registration of projects before offering for sale as per RERA guidelines. Unless new launches pick up, ramping-up new sales meaningfully will be difficult, we believe.

3. **Promoter CCPS deal an overhang**: DLF is currently in exclusive talks with GIC to sell promoter’s 40% stake (upon conversion of CCPS) in DLF Cyber City Developers (DCCDL; currently 100% subsidiary of DLF). The proceeds from stake sale will largely be invested by promoters in DLF as an equity investment. This will increase DLF promoter’s stake in DLF (currently at ~75%) beyond SEBI mandated 75% threshold and DLF will hence require to do additional equity issuance to bring back promoter’s stake within SEBI threshold. The entire transaction (CCPS deal) is expected to be completed in mid-FY18. Post the fund infusion by promoter and additional equity issuance, we expect DLF’s net debt to reduce meaningfully. However, this may potentially come at significant equity dilution. Valuation of CCPS deal, price for share issuance to promoters and price at which further new equity is raised are key factors determining the capital structure going forward.
4. **Valuations appear full**: We believe, value of annuity assets at attractive cap rates, pending value from ongoing projects and value of long gestation future land bank appear largely priced in. Earnings based valuations appear expensive – 37x FY18E EPS and 33x FY19E EPS. The stock is currently trading at 27% discount to our FY18E NAV versus past 3 years’ average of 39%.

**We will turn positive on DLF stock if:**
1. DLF begins new residential launches in Gurgaon and other city markets where it has presence. This should result in improvement in new sales momentum.
2. Residential demand in DLF’s mainstay Gurgaon market picks up.
4. Faster ramp-up in its office space portfolio and quick leasing in its upcoming rental assets.

**Chart 1: Structural slowdown in residential new sales**

**Chart 2: New construction starts**

*Source: Company, Edelweiss research*
Valuations

We have ‘HOLD/SU with a target price INR185, which we have arrived at by applying 30% discount to our March 2018E NAV of INR264 (refer table 1). Our NAV assumes 26% tax rate, 6% (of sales) overheads, 14% discount rate and cap rate of 7% on investment assets. We have not incorporated impact of promoter CCPS stake sale in view of uncertainty related to valuation as well pricing of subsequent equity issuance. We would include it once deal details are announced.

We argue for 30% discount to NAV based on following:

1) Slower pace of new launches/sales in past few quarters. DLF has long-gestation land bank of ~249msf (INR12bn of new sales in FY17), which could take multiple decades to be monetised.

2) While the proposed promoter CCPS transaction will strengthen balance sheet, it will come at a high cost (equity replacing debt) and lead to significant dilution from minority shareholders’ perspective.

3) DLF is incurring INR5-7bn negative operating cash flow on quarterly basis, which is expected to continue (even post CCPS transaction) unless new launches increase leading to new sales.

4) Around 53% of the company’s total land bank is concentrated in NCR, which could restrict scale up in operations. If the ongoing slow down in the Gurgaon property market gets prolonged, DLF’s prospects to scale up pre-sales/ execution are likely to weaken.

These factors contrast with few positives:

1) DLF boasts of premium brand and equity investment scarcity (i.e., limited real estate plays in the Indian equity market that are liquid).

2) Significant asset build up in balance sheet, including ~30msf of rent-yielding assets (of which 26.5msf would have 60% DLF’s share post promoter stake sale) plus a few
ongoing investment properties (such as Chanakyapuri Mall and 4.3msf of new office space in Cyber City and Chennai), lend high visibility to stable rental income.

### Table 1: DLF - NAV and target price calculation

<table>
<thead>
<tr>
<th>Description</th>
<th>Value (INR mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of future land bank</td>
<td>345,497</td>
</tr>
<tr>
<td>Value of DCCDL Rental Assets (DLF share)</td>
<td>211,112</td>
</tr>
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<td>Value of ex-DCCDL Rental Assets</td>
<td>65,333</td>
</tr>
<tr>
<td>Value of Ongoing Projects</td>
<td>63,591</td>
</tr>
<tr>
<td>Less: Net Debt (DLF share)</td>
<td>213,761</td>
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<tr>
<td><strong>Net Asset Value</strong></td>
<td><strong>471,772</strong></td>
</tr>
<tr>
<td><strong>Net Asset Value per share (INR)</strong></td>
<td><strong>264</strong></td>
</tr>
<tr>
<td>Discount to NAV (%)</td>
<td><strong>30</strong></td>
</tr>
<tr>
<td><strong>Target Price (INR)</strong></td>
<td><strong>185</strong></td>
</tr>
</tbody>
</table>

*Source: Company, Edelweiss research*

### Management call highlights

1. **CCPS transaction update:** GIC is currently conducting final due diligence which should get completed over the next few weeks. Legal documentation is also underway. Once this is done DLF and GIC will sign an agreement, post which deal valuations will be declared. Post this, GIC will need to approach CCI for getting its approval while DLF will approach its shareholders for getting their approval. Deal monies are expected to come into DLF by around October 2017.

2. **Residential demand outlook:** DLF expects residential demand to remain soft in FY18 as well. Demand could improve in FY19. Gurgaon market demand continues to remain sluggish.

3. **Leasing outlook:** DLF is seeing good leasing traction in its rental assets. New leases in Cyber City assets are happening at plus INR100 psf/month. The tenant mix over the years has gradually shifted from mainly IT/ITES tenants to tenants belonging to multiple sectors such as e-commerce, consulting, advertising as well as corporate offices.

4. **RERA impact:** DLF expects implementation of RERA to improve transparency in the sector and increase customer confidence. It expects non-serious developers to exit the industry. While in the long-term this would be beneficial for the industry, in the short-term it could lead to uncertainties.

5. **Revenue recognition of DLF Phase V projects:** All ongoing and future projects in DLF Phase V will now come under revised POCM based revenue recognition guidelines. Earlier, revenues from some of the Phase V projects were recognised using old accounting norms.
## Financial snapshot (INR mn)

<table>
<thead>
<tr>
<th>Year to March</th>
<th>Q4FY17</th>
<th>Q4FY16</th>
<th>% change</th>
<th>Q3FY17</th>
<th>% change</th>
<th>FY16</th>
<th>FY17E</th>
<th>FY18E</th>
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<tr>
<td>Net revenues</td>
<td>22,252</td>
<td>25,465</td>
<td>(12.6)</td>
<td>20,579</td>
<td>8.1</td>
<td>92,599</td>
<td>87,687</td>
<td>91,847</td>
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<tr>
<td>Direct Operating expenses</td>
<td>11,065</td>
<td>13,902</td>
<td>(20.4)</td>
<td>7,294</td>
<td>51.7</td>
<td>40,503</td>
<td>36,175</td>
<td>36,453</td>
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<td>Staff costs</td>
<td>790</td>
<td>827</td>
<td>(4.5)</td>
<td>1,017</td>
<td>(22.4)</td>
<td>3,150</td>
<td>3,308</td>
<td>3,440</td>
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<td>Other expenses</td>
<td>3,295</td>
<td>3,603</td>
<td>(8.5)</td>
<td>2,691</td>
<td>22.5</td>
<td>10,281</td>
<td>10,055</td>
<td>10,357</td>
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<td>Total expenditure</td>
<td>15,150</td>
<td>18,332</td>
<td>(17.4)</td>
<td>11,001</td>
<td>37.7</td>
<td>53,934</td>
<td>49,537</td>
<td>50,250</td>
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<tr>
<td>EBITDA</td>
<td>7,102</td>
<td>7,133</td>
<td>(0.4)</td>
<td>9,578</td>
<td>(25.9)</td>
<td>38,664</td>
<td>38,149</td>
<td>41,596</td>
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<tr>
<td>Depreciation</td>
<td>1,402</td>
<td>1,493</td>
<td>(6.1)</td>
<td>1,420</td>
<td>(1.3)</td>
<td>7,778</td>
<td>7,025</td>
<td>6,818</td>
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<td>Other income</td>
<td>2,862</td>
<td>1,863</td>
<td>53.7</td>
<td>1,200</td>
<td>138.5</td>
<td>4,802</td>
<td>8,150</td>
<td>4,483</td>
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<td>Interest</td>
<td>7,383</td>
<td>6,468</td>
<td>14.1</td>
<td>7,586</td>
<td>(2.7)</td>
<td>26,154</td>
<td>27,961</td>
<td>25,498</td>
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<td>Add: Exceptional items</td>
<td>941</td>
<td>(1,187)</td>
<td>(179.2)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Profit before tax</td>
<td>2,121</td>
<td>(152)</td>
<td>(1,491.4)</td>
<td>1,771</td>
<td>19.7</td>
<td>9,534</td>
<td>11,314</td>
<td>13,763</td>
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<td>Provision for taxes</td>
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<td>(67.4)</td>
<td>516</td>
<td>4.1</td>
<td>4,193</td>
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<td>PAT</td>
<td>1,583</td>
<td>(1,798)</td>
<td>(188.1)</td>
<td>1,256</td>
<td>26.1</td>
<td>5,341</td>
<td>8,146</td>
<td>9,909</td>
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<td>Minority interest</td>
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<td>9</td>
<td>596.8</td>
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<td>(975.7)</td>
<td>(714)</td>
<td>650</td>
<td>800</td>
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<td>Associate profit share</td>
<td>(157)</td>
<td>(313)</td>
<td>NA</td>
<td>(267)</td>
<td>NA</td>
<td>347</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Reported net profit</td>
<td>1,421</td>
<td>(1,796)</td>
<td>NA</td>
<td>976</td>
<td>45.6</td>
<td>5,708</td>
<td>7,496</td>
<td>9,109</td>
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<td>Diluted shares (mn)</td>
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<td>1,784</td>
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<td>1,784</td>
<td>1,784</td>
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<tr>
<td>Adjusted Diluted EPS</td>
<td>0.8</td>
<td>0.9</td>
<td>(175.2)</td>
<td>0.6</td>
<td>38.2</td>
<td>3.2</td>
<td>4.2</td>
<td>5.1</td>
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<td>Cost of construction</td>
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<td>41.3</td>
<td>39.7</td>
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<td>Employee cost</td>
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<td>3.7</td>
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<td>Other expenses</td>
<td>14.8</td>
<td>14.2</td>
<td>13.1</td>
<td>11.1</td>
<td>11.5</td>
<td>11.3</td>
<td>11.3</td>
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<td>Total expenses</td>
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<td>72.0</td>
<td>53.5</td>
<td>58.2</td>
<td>56.5</td>
<td>54.7</td>
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<td>EBITDA</td>
<td>31.9</td>
<td>28.0</td>
<td>46.5</td>
<td>41.8</td>
<td>43.5</td>
<td>45.3</td>
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<td>Depreciation</td>
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<td>8.0</td>
<td>7.4</td>
<td>7.4</td>
<td>7.4</td>
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<tr>
<td>EBIT</td>
<td>25.6</td>
<td>22.1</td>
<td>39.6</td>
<td>33.4</td>
<td>35.5</td>
<td>37.9</td>
<td>37.9</td>
<td>37.9</td>
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<tr>
<td>Interest expenditure</td>
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<td>25.4</td>
<td>36.9</td>
<td>28.2</td>
<td>31.9</td>
<td>27.8</td>
<td>27.8</td>
<td>27.8</td>
</tr>
<tr>
<td>Reported net profit</td>
<td>6.4</td>
<td>(7.1)</td>
<td>4.7</td>
<td>6.2</td>
<td>8.5</td>
<td>9.9</td>
<td>9.9</td>
<td>9.9</td>
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<tr>
<td>Tax rate</td>
<td>25.3</td>
<td>(1,079.9)</td>
<td>29.1</td>
<td>44.0</td>
<td>28.0</td>
<td>28.0</td>
<td>28.0</td>
<td>28.0</td>
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</tbody>
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Company Description

DLF, incorporated in 1963, is a north India based real estate developer with presence across major markets in India. It is involved in development of various property types – residential, commercial and retail. More than 50% of its land bank is located in Gurgaon. It has ~30msf of leased rental assets located in key metros across India. The company is promoted by Mr. K. P. Singh who has four decades of experience in the Indian real estate industry.

Investment Theme

1. Earnings challenges ahead on account of lower pre-sales in past 3 years, weak pipeline of older projects and sluggish pace of new launches

2. Earnings dependent on sluggish Gurgaon market exposing it to single market risk

3. Expected improvement in balance sheet on account of infusion of sales proceeds by promoters from stake sale in rental assets and consequent capital raising to be off-set by significant equity dilution

4. Expensive earnings based valuations

Key Risks

1. Better valuations than expected for promoters’ stake in DCCDL (rental) assets held through CCPS which is up for sale to strategic investors.

2. Sharp improvement in local macros climate.

3. Spike in new launches leading to pick-up in new sales and hence providing good visibility for surplus cash from operations.

4. Launch visibility of lucrative projects – Tulsiwadi, Chanakyapuri and Central Delhi projects (joint venture - JV with GIC).

5. Quick leasing of ongoing commercial projects at higher rentals and fast off-take of completed, but unsold inventory.
Financial Statements

Key Assumptions

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
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<tbody>
<tr>
<td><strong>Macro</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP(Y-o-Y %)</td>
<td>7.2</td>
<td>6.5</td>
<td>7.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Inflation (Avg)</td>
<td>4.9</td>
<td>4.8</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Repo rate (exit rate)</td>
<td>6.8</td>
<td>6.3</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>USD/INR (Avg)</td>
<td>65.0</td>
<td>67.5</td>
<td>69.0</td>
<td>69.0</td>
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<tr>
<td><strong>Company</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Selling Price increase (%)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
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<tr>
<td>Construction Cost Increase (%)</td>
<td>5</td>
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<td>5</td>
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</tbody>
</table>

Income statement

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year to March</td>
<td>FY16</td>
<td>FY17</td>
<td>FY18E</td>
<td>FY19E</td>
</tr>
<tr>
<td>Income from operations</td>
<td>92,599</td>
<td>87,687</td>
<td>92,117</td>
<td>86,514</td>
</tr>
<tr>
<td>Direct costs</td>
<td>40,503</td>
<td>36,175</td>
<td>36,453</td>
<td>32,016</td>
</tr>
<tr>
<td>Employee costs</td>
<td>3,150</td>
<td>3,308</td>
<td>3,440</td>
<td>3,578</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>10,281</td>
<td>10,055</td>
<td>10,357</td>
<td>10,668</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>53,934</td>
<td>49,537</td>
<td>50,250</td>
<td>46,261</td>
</tr>
<tr>
<td>EBITDA</td>
<td>38,664</td>
<td>38,149</td>
<td>41,867</td>
<td>40,253</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7,778</td>
<td>7,025</td>
<td>6,818</td>
<td>6,731</td>
</tr>
<tr>
<td>EBIT</td>
<td>30,886</td>
<td>31,125</td>
<td>35,049</td>
<td>33,522</td>
</tr>
<tr>
<td>Add: Other income</td>
<td>4,802.03</td>
<td>8,150.05</td>
<td>4,482.53</td>
<td>4,572.18</td>
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<tr>
<td>Less: Interest Expense</td>
<td>26,154</td>
<td>27,961</td>
<td>25,498</td>
<td>22,544</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>9,534</td>
<td>11,314</td>
<td>14,033</td>
<td>15,551</td>
</tr>
<tr>
<td>Less: Minority Interest</td>
<td>(714)</td>
<td>650</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Associate profit share</td>
<td>347</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reported Profit</td>
<td>5,708</td>
<td>7,496</td>
<td>9,304</td>
<td>10,396</td>
</tr>
<tr>
<td>Adjusted Profit</td>
<td>5,708</td>
<td>7,496</td>
<td>9,304</td>
<td>10,396</td>
</tr>
<tr>
<td>Shares o/s (mn)</td>
<td>1,784</td>
<td>1,784</td>
<td>1,784</td>
<td>1,784</td>
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<tr>
<td>Adjusted Basic EPS</td>
<td>3.2</td>
<td>4.2</td>
<td>5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Diluted shares o/s (mn)</td>
<td>1,784</td>
<td>1,784</td>
<td>1,784</td>
<td>1,784</td>
</tr>
<tr>
<td>Adjusted Diluted EPS</td>
<td>3.2</td>
<td>4.2</td>
<td>5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Adjusted Cash EPS</td>
<td>3.2</td>
<td>4.2</td>
<td>5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Dividend per share (DPS)</td>
<td>2.5</td>
<td>1.1</td>
<td>1.3</td>
<td>1.5</td>
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<tr>
<td>Dividend Payout Ratio(%)</td>
<td>77.6</td>
<td>25.0</td>
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</table>

Common size metrics

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>58.2</td>
<td>56.5</td>
<td>54.6</td>
<td>53.5</td>
</tr>
<tr>
<td>Staff costs</td>
<td>3.4</td>
<td>3.8</td>
<td>3.7</td>
<td>4.1</td>
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<tr>
<td>G &amp; A expenses</td>
<td>11.1</td>
<td>11.5</td>
<td>11.2</td>
<td>12.3</td>
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<tr>
<td>Depreciation</td>
<td>8.4</td>
<td>8.0</td>
<td>7.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>28.2</td>
<td>31.9</td>
<td>27.7</td>
<td>26.1</td>
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<tr>
<td>EBITDA margins</td>
<td>41.8</td>
<td>43.5</td>
<td>45.4</td>
<td>46.5</td>
</tr>
<tr>
<td>Net Profit margins</td>
<td>6.2</td>
<td>8.5</td>
<td>10.1</td>
<td>12.0</td>
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</table>

Growth ratios (%)

<table>
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<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>21.1</td>
<td>(5.3)</td>
<td>5.1</td>
<td>(6.1)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>27.9</td>
<td>(1.3)</td>
<td>9.7</td>
<td>(3.9)</td>
</tr>
<tr>
<td>PBT</td>
<td>52.1</td>
<td>18.7</td>
<td>24.0</td>
<td>10.8</td>
</tr>
<tr>
<td>Adjusted Profit</td>
<td>14.4</td>
<td>31.3</td>
<td>24.1</td>
<td>11.7</td>
</tr>
<tr>
<td>EPS</td>
<td>14.3</td>
<td>31.3</td>
<td>24.1</td>
<td>11.7</td>
</tr>
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</table>
### Balance sheet (INR mn)

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>3,567</td>
<td>3,568</td>
<td>3,568</td>
<td>3,568</td>
</tr>
<tr>
<td>Reserves &amp; Surplus</td>
<td>270,033</td>
<td>275,655</td>
<td>282,633</td>
<td>290,430</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>273,600</td>
<td>279,223</td>
<td>286,200</td>
<td>293,998</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>1,118</td>
<td>1,118</td>
<td>1,118</td>
<td>1,118</td>
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<tr>
<td>Preference capital</td>
<td>15,971</td>
<td>15,971</td>
<td>15,971</td>
<td>15,971</td>
</tr>
<tr>
<td>Long term borrowings</td>
<td>268,930</td>
<td>252,000</td>
<td>236,000</td>
<td>216,000</td>
</tr>
<tr>
<td>Def. Tax Liability (net)</td>
<td>(19,993)</td>
<td>(19,993)</td>
<td>(19,993)</td>
<td>(19,993)</td>
</tr>
</tbody>
</table>

### Sources of funds

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Block</td>
<td>246,817</td>
<td>248,150</td>
<td>248,891</td>
<td>247,403</td>
</tr>
<tr>
<td>Net Block</td>
<td>208,904</td>
<td>206,606</td>
<td>200,529</td>
<td>192,310</td>
</tr>
<tr>
<td>Capital work in progress</td>
<td>38,675</td>
<td>41,241</td>
<td>45,609</td>
<td>47,597</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>247,579</td>
<td>247,846</td>
<td>246,138</td>
<td>239,907</td>
</tr>
<tr>
<td>Goodwill on consolidation</td>
<td>10,627</td>
<td>10,627</td>
<td>10,627</td>
<td>10,627</td>
</tr>
<tr>
<td>Non current investments</td>
<td>9,704</td>
<td>9,000</td>
<td>9,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Cash and Equivalents</td>
<td>33,714</td>
<td>17,498</td>
<td>(13,711)</td>
<td>(27,851)</td>
</tr>
<tr>
<td>Inventories</td>
<td>175,069</td>
<td>180,060</td>
<td>204,672</td>
<td>217,570</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>16,561</td>
<td>17,000</td>
<td>16,000</td>
<td>17,000</td>
</tr>
<tr>
<td>Loans &amp; Advances</td>
<td>71,251</td>
<td>69,826</td>
<td>68,430</td>
<td>67,061</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>89,878</td>
<td>92,000</td>
<td>94,000</td>
<td>92,000</td>
</tr>
<tr>
<td>Total current assets</td>
<td>352,760</td>
<td>358,886</td>
<td>383,101</td>
<td>393,631</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>109,085</td>
<td>109,866</td>
<td>110,686</td>
<td>111,548</td>
</tr>
<tr>
<td>Provisions</td>
<td>5,674</td>
<td>5,674</td>
<td>5,674</td>
<td>5,674</td>
</tr>
<tr>
<td>Total Current Liab</td>
<td>114,759</td>
<td>115,540</td>
<td>116,360</td>
<td>119,222</td>
</tr>
<tr>
<td>Net Curr Assets-ex cash</td>
<td>238,001</td>
<td>243,346</td>
<td>266,741</td>
<td>274,410</td>
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### Uses of funds

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>BVPS (INR)</td>
<td>153.4</td>
<td>156.5</td>
<td>160.4</td>
<td>164.8</td>
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</table>

### Free cash flow (INR mn)

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported Profit</td>
<td>5,708</td>
<td>7,496</td>
<td>9,304</td>
<td>10,396</td>
</tr>
<tr>
<td>Add: Depreciation</td>
<td>7,778</td>
<td>7,025</td>
<td>6,818</td>
<td>6,731</td>
</tr>
<tr>
<td>Interest (Net of Tax)</td>
<td>14,651</td>
<td>20,132</td>
<td>18,359</td>
<td>16,231</td>
</tr>
<tr>
<td>Less: Changes in WC</td>
<td>4,042</td>
<td>5,345</td>
<td>23,395</td>
<td>7,669</td>
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<tr>
<td>Operating cash flow</td>
<td>9,444</td>
<td>9,175</td>
<td>(7,273)</td>
<td>9,459</td>
</tr>
<tr>
<td>Less: Capex</td>
<td>28,377</td>
<td>1,333</td>
<td>741</td>
<td>(1,488)</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>(4,283)</td>
<td>27,974</td>
<td>10,344</td>
<td>27,178</td>
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### Cash flow metrics

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing cash flow</td>
<td>(13,864)</td>
<td>(6,588)</td>
<td>(5,609)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Financing cash flow</td>
<td>(13,332)</td>
<td>(1,873)</td>
<td>(2,326)</td>
<td>(2,599)</td>
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<tr>
<td>Net cash Flow</td>
<td>(17,752)</td>
<td>714</td>
<td>(15,209)</td>
<td>5,860</td>
</tr>
<tr>
<td>Capex</td>
<td>28,377</td>
<td>1,333</td>
<td>741</td>
<td>(1,488)</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>4,430</td>
<td>1,874</td>
<td>2,326</td>
<td>2,599</td>
</tr>
<tr>
<td>Share issue/(buyback)</td>
<td>(1,366)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Profitability and efficiency ratios

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOP(ROE) (%)</td>
<td>2.1</td>
<td>2.7</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>ROAE (%)</td>
<td>2.1</td>
<td>2.7</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>ROACE (%)</td>
<td>8.1</td>
<td>8.8</td>
<td>8.9</td>
<td>8.8</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>3.4</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Gross Debt/EBITDA</td>
<td>7.0</td>
<td>6.6</td>
<td>5.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Gross Debt/Equity</td>
<td>98.3</td>
<td>90.3</td>
<td>82.5</td>
<td>73.5</td>
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<tr>
<td>Net Debt/Equity</td>
<td>84.2</td>
<td>82.4</td>
<td>85.6</td>
<td>81.2</td>
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</table>

### Operating ratios

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Asset Turnover</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Fixed Asset Turnover</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Equity Turnover</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
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</tbody>
</table>

### Valuation parameters

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adj. Diluted EPS (INR)</td>
<td>3.2</td>
<td>4.2</td>
<td>5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Y-o-Y growth (%)</td>
<td>14.4</td>
<td>31.3</td>
<td>24.1</td>
<td>11.7</td>
</tr>
<tr>
<td>Adjusted Cash EPS (INR)</td>
<td>3.2</td>
<td>4.2</td>
<td>5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Diluted P/E (x)</td>
<td>60.6</td>
<td>46.2</td>
<td>37.2</td>
<td>33.3</td>
</tr>
<tr>
<td>P/B (x)</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Dividend Yield (%)</td>
<td>1.3</td>
<td>0.5</td>
<td>0.7</td>
<td>0.8</td>
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### Peer comparison valuation

<table>
<thead>
<tr>
<th>Name</th>
<th>Market cap USD mn</th>
<th>Diluted P/E (X) FY18E</th>
<th>P/B (X) FY18E</th>
<th>ROAE (%) FY18E</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLF</td>
<td>5,370</td>
<td>37.2</td>
<td>33.3</td>
<td>1.2</td>
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<td>Brigade Enterprises</td>
<td>528</td>
<td>16.2</td>
<td>12.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Godrej Properties</td>
<td>1,674</td>
<td>33.5</td>
<td>25.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Oberoi Realty</td>
<td>2,016</td>
<td>15.2</td>
<td>14.1</td>
<td>2.0</td>
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<td>Sobha Developers</td>
<td>587</td>
<td>17.8</td>
<td>14.3</td>
<td>1.3</td>
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<tr>
<td>Median</td>
<td>-</td>
<td>17.8</td>
<td>14.3</td>
<td>1.5</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>-</td>
<td>24.0</td>
<td>20.0</td>
<td>2.1</td>
</tr>
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</table>

Source: Edelweiss research
Real Estate

Additional Data

Directors Data

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. K.P. Singh</td>
<td>Chairman</td>
<td>Mr. Rajiv Singh</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>Dr. D.V. Kapur</td>
<td>Independent Director</td>
<td>Mr. K.N. Memani</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Mr. B. Bhushan</td>
<td>Independent Director</td>
<td>Mr. Mohit Gujral</td>
<td>CEO &amp; Whole-time Director</td>
</tr>
<tr>
<td>Mr. Rajeev Talwar</td>
<td>CEO &amp; Whole-time Director</td>
<td>Ms. Pia Singh</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Mr. G.S. Talwar</td>
<td>Independent Director</td>
<td>Mr. Pramod Bhasin</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Mr. Rajiv Krishan Luthra</td>
<td>Independent Director</td>
<td>Mr. Ved Kumar Jain</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Lt. Gen. Aditya Singh (Retd.)</td>
<td>Independent Director</td>
<td>Mr. A. S. Minocha</td>
<td>Independent Director</td>
</tr>
</tbody>
</table>

Auditors - M/s. Walker, Chandiok & Co

*as per last annual report

Holding – Top10

<table>
<thead>
<tr>
<th>Holding</th>
<th>Perc. Holding</th>
<th>Holding</th>
<th>Perc. Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panchsheel investments</td>
<td>17.49</td>
<td>Sidhant housing &amp; de</td>
<td>13.3</td>
</tr>
<tr>
<td>Massachusetts mutual</td>
<td>5.62</td>
<td>Kohinoor real estate</td>
<td>5.34</td>
</tr>
<tr>
<td>Madhur housing &amp; dev</td>
<td>5.26</td>
<td>Yashika prop &amp; dev c</td>
<td>5.16</td>
</tr>
<tr>
<td>Prem traders &amp; inv p</td>
<td>5.05</td>
<td>Mallika housing comp</td>
<td>4.36</td>
</tr>
<tr>
<td>Vishal foods &amp; inv p</td>
<td>4.19</td>
<td>Gic private limited</td>
<td>3.81</td>
</tr>
</tbody>
</table>

*in last one year

Bulk Deals

<table>
<thead>
<tr>
<th>Data</th>
<th>Acquired / Seller</th>
<th>B/S</th>
<th>Qty Traded</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Data Available</td>
<td>*in last one year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Insider Trades

<table>
<thead>
<tr>
<th>Reporting Data</th>
<th>Acquired / Seller</th>
<th>B/S</th>
<th>Qty Traded</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Data Available</td>
<td>*in last one year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### ABSOLUTE RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Expected absolute returns over 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>More than 15%</td>
</tr>
<tr>
<td>Hold</td>
<td>Between 15% and -5%</td>
</tr>
<tr>
<td>Reduce</td>
<td>Less than -5%</td>
</tr>
</tbody>
</table>

### RELATIVE RETURNS RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector Outperformer (SO)</td>
<td>Stock return &gt; 1.25 x Sector return</td>
</tr>
<tr>
<td>Sector Performer (SP)</td>
<td>Stock return &gt; 0.75 x Sector return</td>
</tr>
<tr>
<td>Stock return &lt; 1.25 x Sector return</td>
<td>Stock return &lt; 0.75 x Sector return</td>
</tr>
<tr>
<td>Sector Underperformer (SU)</td>
<td>Stock return &lt; 0.75 x Sector return</td>
</tr>
</tbody>
</table>

Sector return is market cap weighted average return for the coverage universe within the sector.

### RELATIVE RISK RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (L)</td>
<td>Bottom 1/3rd percentile in the sector</td>
</tr>
<tr>
<td>Medium (M)</td>
<td>Middle 1/3rd percentile in the sector</td>
</tr>
<tr>
<td>High (H)</td>
<td>Top 1/3rd percentile in the sector</td>
</tr>
</tbody>
</table>

Risk ratings are based on Edelweiss risk model.

### SECTOR RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overweight (OW)</td>
<td>Sector return &gt; 1.25 x Nifty return</td>
</tr>
<tr>
<td>Equalweight (EW)</td>
<td>Sector return &gt; 0.75 x Nifty return</td>
</tr>
<tr>
<td>Underweight (UW)</td>
<td>Sector return &lt; 0.75 x Nifty return</td>
</tr>
</tbody>
</table>
Coverage group(s) of stocks by primary analyst(s): Real Estate

Brigade Enterprises, DLF, Godrej Properties, Oberoi Realty, Sobha Developers, Sunteck Realty Limited

Recent Research

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Title</th>
<th>Price (INR)</th>
<th>Recos</th>
</tr>
</thead>
<tbody>
<tr>
<td>23-May-17</td>
<td>Brigade Enterprises</td>
<td>Q4 beat; scaling growth trajectory; Result Update</td>
<td>242</td>
<td>Buy</td>
</tr>
<tr>
<td>17-May-17</td>
<td>Sobha</td>
<td>Q4FY Result Beat; Scale-up prospects ahead; Result Update</td>
<td>426</td>
<td>Buy</td>
</tr>
<tr>
<td>5-May-17</td>
<td>Oberoi Realty</td>
<td>Result beat; operationally stable; fundamentals intact; Result Update</td>
<td>404</td>
<td>Buy</td>
</tr>
</tbody>
</table>

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

<table>
<thead>
<tr>
<th>Rating</th>
<th>Buy</th>
<th>Hold</th>
<th>Reduce</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Distribution*</td>
<td>161</td>
<td>67</td>
<td>11</td>
<td>240</td>
</tr>
<tr>
<td>* 1stocks under review</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; 50bn</td>
<td>156</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between 10bn and 50bn</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 10bn</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Cap (INR)</td>
<td>156</td>
<td>62</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

Rating Interpretation

<table>
<thead>
<tr>
<th>Rating</th>
<th>Expected to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>appreciate more than 15% over a 12-month period</td>
</tr>
<tr>
<td>Hold</td>
<td>appreciate up to 15% over a 12-month period</td>
</tr>
<tr>
<td>Reduce</td>
<td>depreciate more than 5% over a 12-month period</td>
</tr>
</tbody>
</table>

One year price chart

(DLF)
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