

## **Calling the DLF's Bluff**

DLF has announced that it would consider buying back its shares in its forth coming board meeting. It is very strange decision to say the least for many reasons.

First, till February-March the company was looking to raise almost Rs 12,000 crores from Singapore. Global turmoil trashed company's plans. So has the need for capital evaporated suddenly? Not a very likely scenario.

Second, the company does not even generate cash from operations despite claiming to have a profit of more than Rs 7000 crores for latest financial year. Last year the cash used in operation was Rs 6400 Crores while this year it was Rs 2000 crores this financial year. At the same time the company claims to be earnings free cash flow. It does not even generate cash at operating level. Claim of generation of free cash flow is laughable.

Third, when shares are bought back they would be replaced by debt. The cost of servicing the debt is in double digits and going higher. As it is, DLF will require cash for operations. Adding to their debt level is not a very sensible proposition.

Fourth, only 12 % of the shares are held by non promoters. There is very little sense in buying this back. Only 2% can be bought back and if shares continue to fall beyond what will company do? Will it buy back more and de list just like it did from Delhi Stock Exchange in 2003.

The buy back is a gimmick. The company requires capital. With share prices below the IPO level this cannot be done. Brand value in real estate means little. No body would pay a huge premium for a building just because it has been built by DLF. If other real estate players face trouble and reduce their prices DLF will have to follow suit. The time when companies could use cash raised in IPO to keep real estate prices high is over. Bigger troubles lie ahead for DLF.

1 crore = 10 million