

July 31, 2022

RESULT REPORT Q1 FY23 | Sector: Real Estate

DLF Ltd

Strong Pre-sales & Steady Rentals Driving Consistent Cashflow

Our view

DLF achieved strong presales of Rs20.4bn in Q1FY23, traditionally weak quarter and has launch pipeline of ~7.6-7.8msf for reminder part of year, hence confident to achieve Rs80bn guidance for FY23 (valued cumulative FY23 launches at Rs80-85bn). With minimal inventory in Camellias, DLF plans to launch another premium project in DLF5 (plotted development) with saleable potential of Rs17-20bn in H2FY23. Annuity is on recovery path as physical occupancies are showing encouraging trend MoM and all the capex projects are on track. For DCCDL, management guided for exit rentals of Rs44bn for FY23E and Rs48-50bn for FY24E. Operating margins contracted as DLF is investing in organization and growth but should trend above 35% in coming years as projects added are margin accretive with gross margins +55%. We have kept topline unchanged but has calibrated estimates for higher expenses thereby trimmed our EBITDA by 13%/9% for FY23/24E, resulting in margin contraction by 429bps/306bps respectively. Additionally, being cognizant of interest reversal we increased WACC from 10% to 11.5% while kept cap rate unchanged. We valued residential business at Rs.152.6bn and believe DCCDL, with its 37.9msf operational portfolio and 7msf under-construction projects, is on track to achieve Rs55bn NOI by FY25 hence valued DCCDL at Rs319.9bn (DLF's share & net of debt). DLF has shown capability of monetizing its land bank efficiently thereby we expect DLF to monetize 152msf with good pace too, hence valued at Rs383/share. DLF continuously maintaining its D/E below 0.2x since FY20 and is expected to remain low. Robust demand in residential and pick up in the leasing, deleveraged B/S along with DLF's long standing track record gives us confidence. Hence maintain BUY rating with revised TP of Rs581/share (WACC 11.5%, Office Cap Rate 7.5%, Retail Cap rate 6.25%)

Result Highlights: DLF (excluding DCCDL)

- DLF clocked presales of Rs20.4bn (-25% QoQ/101% YoY) guided by booking volumes of 1.2msf which was driven by Camellias contribution of Rs3.52bn, new product of Rs9.5bn and ONE Midtown of Rs5.9bn. Collected Rs10.7bn in Q1FY23.
- Reported revenue of Rs14.42bn (-6.8%QoQ/ 26.5%YoY; YSec est. Rs11.72bn)
- EBITDA came in at Rs4.1bn (11.2%QoQ/ 3.3%YoY; YSec est. Rs3.86bn) with margins at 28.3% (459bps QoQ/ -636bps YoY)
- Adj. PAT at Rs4.7bn (15.2%QoQ/ 38.5%YoY; YSec est. Rs5.18bn) with adjusted profit margin of 32.4% up by 618bps QoQ and 280bps YoY aided by lower interest outgo and higher contribution from JV (DCCDL).

Exhibit 1: Result table

(Rs mn)	Q1FY23	Q4FY22	% qoq	Q1FY22	% yoy
Net sales	14,416	15,473	(6.8)	11,395	26.5
Operating profit	4,086	3,675	11.2	3,954	3.3
OPM (%)	28.3	23.8	459bps	34.7	(636bps)
Depreciation	373	369	1.1	379	(1.6)
Interest	1,052	1,282	(17.9)	1,749	(39.9)
Other income	747	1,049	(28.8)	1,027	(27.3)
PBT	3,437	3,073	11.8	2,853	20.5
Tax	876	838	4.6	828	5.8
Effective tax rate (%)	25.5	27.3	(177bps)	29.0	(352bps)
PAT	2,561	2,235	14.6	2,025	26.4
Min. int/except/JV	2,107	1,818	15.9	1,346	56.6
Reported PAT	4,668	4,053	15.2	3,371	38.5
EPS	1.89	1.64	15.2	1.36	38.5

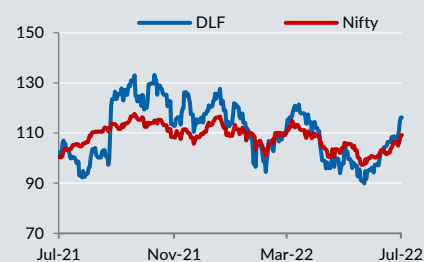
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 386
Target Price	: Rs 581
Potential Return	: +50.4%

Stock data (as on Jul 29, 2022)

Nifty	17,158
52 Week h/l (Rs)	450 / 295
Market cap (Rs/USD mn)	955347 / 12052
Outstanding Shares (mn)	2,475
6m Avg t/o (Rs mn):	2,262
Div yield (%):	0.8
Bloomberg code:	DLFU IN
NSE code:	DLF

Stock performance



	1M	3M	1Y
Absolute return	19.4%	3.8%	15.1%

Shareholding pattern (As of Jun'22 end)

Promoter	75.0%
FII+DII	19.5%
Others	5.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	581	602

Δ in earnings estimates

	FY23E	FY24E
EPS (New)	9.4	13.3
EPS (Old)	10.4	14.2
% change	-10%	-6%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenues	57,174	58,577	69,850
YoY growth	6%	2%	19%
EBITDA	17426	16783	21626
YoY growth	23%	-4%	29%
PAT	15009	23298	33005
YoY growth	39%	55%	42%
EPS	6.1	9.4	13.3
P/E	63.7	41.0	28.9
P/BV	2.6	2.5	2.3
D/E	0.11	0.12	0.09
EV/EBITDA	45.1	45.9	35.1
RoE (%)	4.1	6.1	8.1
RoCE (%)	4.0	3.6	4.6

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DCCDL update (DLF-GIC rental arm)

- DLF generated surplus cash of Rs4.2bn from its operations and help further deleverage B/S and consequently Net Debt stood at Rs22.6bn (Q4FY22-Rs26.8bn). Blended cost of borrowing inched up to 7.12% (Q4FY22 – 7.03%).
- For Q1FY23, DCCDL achieved new leasing of 1.2msf and rental revenue of Rs9.26bn. Office rentals witnessed steady growth of 4%YoY and Retail revenues grew by 293% driven by strong rebound and low base effect. Reported Revenue of Rs1.26bn (5.6%QoQ/ 21% YoY).
- Reported EBITDA at Rs9.61bn up by 18% YoY and PAT at Rs3.23bn up by 60% YoY.
- DCCDL received OC for Downtown Gurugram Phase- I (~1.7msf) and fully leased. Rentals should start from H2FY23.
- Occupancy for DCCDL portfolio was steady at 89% in Q1FY23 and Net Debt came down by Rs2.6bn to Rs188bn.

KEY PRESENTATION AND CON-CALL HIGHLIGHTS

DLF (excluding DCCDL)

- Margin affected as business is in scaling up phase and DLF is investing for growth. The new product portfolio added in the last 18 months is margin accretive and expected to enhance gross margins to +55% going forward and EBITDA margins should inch up above 35%.
- Increase in staff cost is driven by organization scale up and other expenses are driven by scaling up marketing and brokerage cost. DLF follows a policy of fully charging of sales and construction overheads for which the corresponding revenue will be recognized in future.
- In DLF portfolio, company is committed to spend nearly 4-5bn each year for 3-5years building IT park Noida, DLF Avenue Goa (Mall) and Highstreet Shopping centers in DLF5 Gurugram and near One Midtown etc. Goa Mall & Highstreet Shopping center Gurugram should be ready by H2CY24 while for Highstreet shopping centers near One Midtown should commence construction in next 2-3 months.
- For DLF5, company is coming up with very premium product launch in H2FY23 with potential saleable value of Rs17-20bn named '**GROW**' and will be last land parcel for plotted development in one of most premium geographies of country.
- Crest -2 will not be launching in current fiscal.
- Capital Greens Phase-III APR is around Rs26000-30000/sft which was around Rs15000/sft just about 15months back.
- And collection to improve from October for Capital Greens as specific milestone will be achieved which is threshold for payment according to CLP.
- In Q1FY23, 0.7msf launched of guidance ~7.6-7.8msf for FY23, For Q2 has pipeline of Rs20bn, for Q3 ~25bn pipeline and for Q4 its ~20-25bn. So total ~Rs80-85bn of active launch pipeline for FY23. And in premium luxury housing (3.3msf) there is Grow DLF5, Residential project in Goa and phase-1 of sector-63 in Gurugram.

DCCDL update (DLF-GIC rental arm)

- Occupiers attendance continues to exhibit steady improvement indicating return to normalcy in the office segment. Chennai asset is witnessing ~80% attendance compared to pre-covid levels and Cyber City Gurugram witnessed 50% attendance. DLF witnessing m-o-m improvement in these trends. With sustained collections and steady improvement in occupancy, the office segment is well poised for growth.
- Given the tailwinds for organized retail, DLF remains committed to grow its portfolio across multiple geographies and plans to double retail presence in the next few years.
- DCCDL is committed to do capex of Rs12-15bn in next 3-5years to build annuity assets like DLF Downtown Gurugram & Chennai, The Mall of India Gurugram, Vasant Kunj mall expansion etc.

- Companies plans for The Mall of Gurugram, architect is at advanced stage and should take another 3-5months to finalize the plan then fast execution. Vasant Kunj Mall expansion plan is also in advanced stage and should be finalize in next 2quarters.
- Downtown Gurugram received OC in end of June-22 and commenced handovers so should start rental from October and once fully occupied, the rentals would be 180-190mn a month (Rs2.2-2.3bn per annum). Downtown Chennai with leasable area 2.2msf is expected to be completed by H1FY24E and rentals to start from Q3FY24E.
- For DCCL the exit rental run rate should be around Rs44bn for FY23E and for FY24E it should be between Rs48-50bn.

Exhibit 2: SoTP valuation (WACC 11.5%, Office Cap Rate 7.5%, Retail Cap rate 6.25%)

Valuation Breakup	Rs. Mn	Rs./share	(%)	Comments
DLF Residential	152,592	62	10.6	1-year forward NAV
DLF RentCo	38,062	15	2.6	1-year forward NAV
DCCDL	460,428	186	32.0	1-year forward NAV
Less: DCCDL Debt (DLF's share)	140,579	57	9.8	DLF's share
Land Bank	949,180	383	66.0	Avg at 5100psf
Less: DLF Net Debt	22,590	9	1.6	As of 1QFY23
Total	1,437,092	581		
CMP		386		
Upside/(downside)		50.4%		

Source: Company, YES Sec

Exhibit 3: Key Estimate Revision (Consolidated)

Y/e 31 Mar	FY23E			FY24E		
(Rs m)	Old	New	Change	Old	New	Change
Revenues	58,577	58,577	0%	69,850	69,850	0%
EBITDA	19,293	16,783	-13%	23,763	21,626	-9%
PAT	25,827	23,298	-10%	35,221	33,005	-6%
EPS	10.4	9.4	-10%	14.2	13.3	-6%

Source: Company, YES Sec

Exhibit 4: Status of DLF completed inventory and new launch (Till Q1FY23)

Projects	Total Area	Sold till date	Sold till date	Revenue Recognised	Revenue to be recognised	Balance Receivables	Area to be sold	Inventory	Collected
	(msf)	(msf)	(Rs mn)	(Rs mn)	(Rs mn)	(Rs mn)	(msf)	(Rs mn)	(Rs mn)
Camelias	3.6	3.09	94430	61730	32700	7450	0.5	19960	86980
DLF 5	0	0	40740	39740	1000	290	0	60	40450
New Gurgaon	18	18	99510	93440	6070	1440	0	1340	98070
National Devco	38	34	162390	151390	11000	2810	2.8	13340	159580
New Products	6.4	6.2	55410	0	55410	34280	1.1	10070	21130
Sub-total	66	61.29	452480	346300	106180	46270	4.4	44770	406210
ONE Midtown (DLF- GIC JV)	2.1	1.4	31280	0	31280	22730	0.8	18960	8550
Total	68.1	62.69	483760	346300	137460	69000	5.2	63730	414760

Source: Company, YES Sec – Research

FINANCIALS

Exhibit 5: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	4,951	4,951	4,951	4,951	4,951
Reserves	339,517	348,489	358,672	376,029	403,093
Net worth	344,467	353,439	363,623	380,980	408,044
Debt	63,295	66,634	39,600	46,634	36,634
Deferred tax liab (net)	2,465	5,408	8,050	8,050	8,050
Other non-current liabilities	7,780	7,295	6,121	6,121	6,121
Total liabilities	418,008	432,776	417,394	441,785	458,849
Fixed Asset	43,313	40,070	39,992	37,273	37,384
Investments	200,975	210,029	206,973	206,973	206,973
Other Non-current Assets	36,367	32,919	30,932	30,932	30,932
Net Working Capital	121,197	139,312	136,437	141,369	158,491
Inventories	224,862	210,866	201,070	204,072	224,209
Sundry debtors	7,204	5,813	5,636	6,289	7,500
Loans and Advances	21,144	16,154	17,874	17,874	17,874
Sundry creditors	18,504	20,290	23,229	21,952	26,177
Other current liabilities	129,988	88,903	76,972	76,972	76,972
Cash & equivalents	16,155	10,447	3,061	25,238	25,069
Total Assets	418,008	432,776	417,394	441,785	458,849

Exhibit 6: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	60,828	54,141	57,174	58,577	69,850
Operating profit	11,350	14,178	17,426	16,783	21,626
Depreciation	2,003	1,595	1,494	1,445	1,389
Interest expense	14,269	8,534	6,246	5,972	4,692
Other income	8,054	5,308	4,205	5,308	5,308
Profit before tax	6,535	8,396	11,646	14,674	20,854
Taxes	21,327	3,623	3,210	2,791	4,253
Adj. PAT	(9,235)	11,898	17,253	23,298	33,005
Net profit	(5,832)	10,936	15,009	23,298	33,005

Exhibit 7: Du Point Analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	(1.9)	1.2	1.1	1.6	1.6
Interest burden (x)	0.3	0.7	0.9	1.0	1.0
EBIT margin (x)	15.4	23.2	27.9	26.2	29.0
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1
Financial leverage (x)	1.7	1.6	1.4	1.4	1.4
RoE (%)	(1.7)	3.1	4.1	6.1	8.1

Source: Company, YES Sec

Exhibit 8: Cashflow

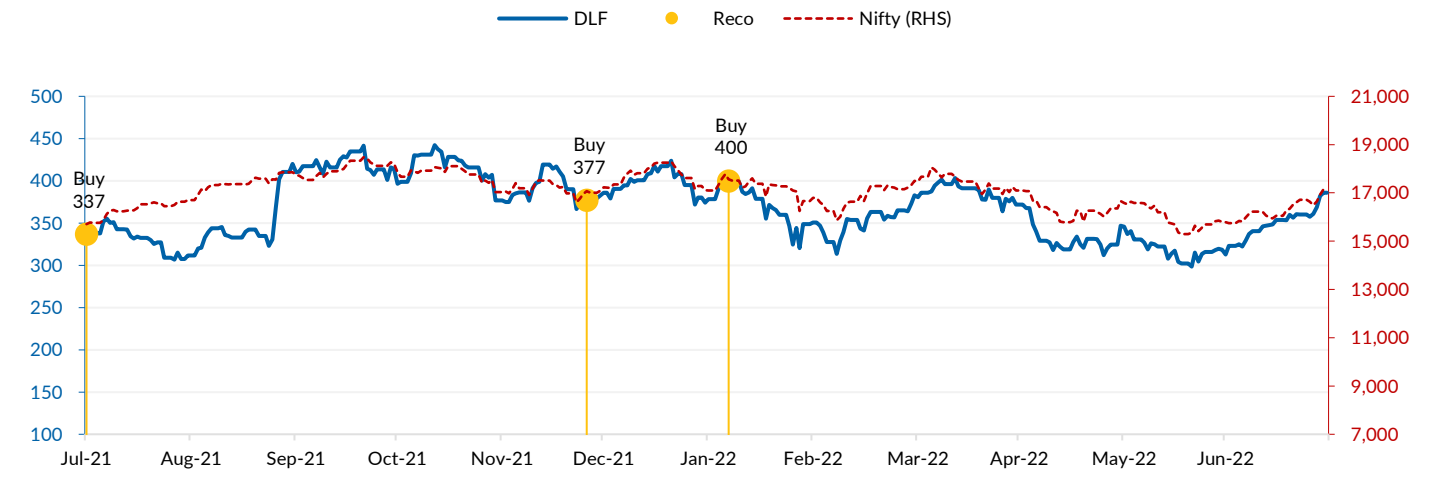
Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
PBIT	6,535	8,396	11,646	14,674	20,854
Depreciation	2,003	1,595	1,494	1,445	1,389
Tax paid	(422)	4,015	2,198	(2,791)	(4,253)
Working capital Δ	(10,950)	(7,020)	7,540	(4,932)	(17,123)
Other operating items	6,085	7,617	5,440	17,387	21,096
Operating cashflow	3,250	14,602	28,318	25,783	21,963
Capital expenditure	(2,063)	(135)	(1,484)	1,274	(1,500)
Free cash flow	1,187	14,467	26,834	27,056	20,463
Equity raised	22,499	0	0	0	0
Investments	67,231	1,675	4,114	0	0
Debt financing/disposal	(82,024)	(9,009)	(21,785)	7,034	(10,000)
Interest Paid	(23,819)	(7,486)	(6,547)	(5,972)	(4,692)
Dividends paid	(8,077)	(1,988)	(4,969)	(5,941)	(5,941)
Other items	19,009	(3,356)	(4,982)	0	0
Net Δ in cash	(26,493)	(5,696)	(7,334)	22,177	(170)

Exhibit 9: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	(27.3)	(11.0)	5.6	2.5	19.2
Op profit growth	(47.0)	24.9	22.9	(3.7)	28.9
EBIT growth	(51.2)	34.6	26.6	(3.7)	31.9
Net profit growth	(177.5)	(228.8)	45.0	35.0	41.7
Profitability ratios (%)					
OPM	18.7	26.2	30.5	28.7	31.0
EBIT margin	15.4	23.2	27.9	26.2	29.0
Net profit margin	(15.2)	22.0	30.2	39.8	47.3
RoCE	2.3	3.0	4.0	3.6	4.6
RoNW	(1.7)	3.1	4.1	6.1	8.1
Per share ratios					
EPS	(2.4)	4.4	6.1	9.4	13.3
Dividend per share	3.2	0.0	3.0	2.0	2.0
Cash EPS	(1.5)	5.1	6.7	10.0	13.9
Book value per share	139.2	142.8	146.9	153.9	164.8
Payout (%)					
Dividend payout	-136	0	49	21	15
Tax payout	21	39	4	19	20
Liquidity ratios					
Debtor days	43	39	39	39	39
Inventory days	1349	1422	1172	1272	1172
Creditor days	111	137	137	137	137

Source: Company, YES Sec

Recommendation Tracker



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