

DLF Ltd

Residential & Retail on strong footing; Office on low vacancy but new leasing not fully recovered

Our view

DLF achieved strong presales of 1.55msf translating in sales value of Rs25.1bn in Q3FY23 backed by the strong presales for 'The Grove' DLF5, Gurugram (Rs15.7bn), DLF Valley Garden, Panchkula (Rs5.4bn) and steady sales for 'The Camellias' (Rs1.8bn) hence management remain confident to achieve/surpass Rs80bn guidance for FY23E (Rs66bn clocked in 9MFY23). Company collected Rs14bn for Q3FY23. 'The Grove' luxury offering in DLF5, Gurugram with total area of ~0.85msf sold out in just 2 quarters of its launch. Operating margins for DLF came in at 32% and expected to trend north of 35% in coming years as new projects added in the last few years are margin accretive with gross margins +55%. Office assets are recovering with physical occupancies increasing MoM and currently stood over 60% at portfolio level.

We valued residential business at Rs.152.6bn and believe DCCDL, with its 39.6msf operational portfolio and ~5.3msf under-construction projects, is on track to achieve Rs55bn NOI by FY25 hence valued DCCDL at Rs290.6bn (DLF's share & net of debt). DLF has shown capability of monetizing its land efficiently (in last 24months, launched ~12msf and achieved ~9msf presales) thereby we expect DLF to monetize 152msf with good pace too; valued at Rs383/share. DLF has maintained its D/E below 0.2x since FY20 and is expected to remain low. Sustained 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 TP of Rs568/share (WACC 11.5%, Office Cap Rate 8.5%, Retail Cap rate 7.25%)

Result Highlights:

- Consolidated revenue for the quarter reported at Rs14948mn (14.8% q/q & -3.5% y/y), a miss of 4% from our estimate.
- EBITDA came in at Rs4772mn (9.3% q/q & -8.5% y/y) higher by 15.3% from our estimate guided by 'The Camellias' recognition for the quarter. While margin reported at 31.9% lower by 161bps q/q & 172bps y/y.
- Consolidated Adjusted PAT reported at Rs51920mn up by 8.8% q/q & 36.8% y/y (24.9% below YSECe) due to continuously reducing interest cost and higher dividend from DCCDL.
- Net debt reduced to Rs20910mn in a quarter (Q2FY23: Rs21420mn) and at portfolio level cost of debt stood at 7.87% (7.43% for Q2FY23).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	14,948	15,569	15,050	(4.0)	(0.7)	
EBITDA	4,772	4,140	4,731	15.3	0.9	Beat on EBITDA
EBITDA Margin (%)	31.9	26.6	31.4	533 bps	49 bps	due to higher contribution of 'The Camellias'
Adjusted PAT	5,192	6,916	5419	(24.9)	(4.2)	

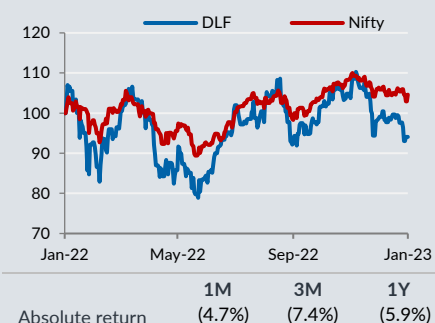
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 356
Target Price	: Rs 568
Potential Return	: +59.6%

Stock data (as on Jan 27, 2022)

Nifty	17,892
52 Week h/l (Rs)	419 / 295
Market cap (Rs/USD mn)	881087 / 10803
Outstanding Shares (mn)	2,475
6m Avg t/o (Rs mn):	1,716
Div yield (%):	0.8
Bloomberg code:	DLFU IN
NSE code:	DLF

Stock performance



Shareholding pattern (As of Dec'22 end)

Promoter	75.0%
FII+DII	19.9%
Others	5.1%

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenues	58,577	69,850	53,860
YoY growth	2%	19%	(23%)
EBITDA	16783	21626	17187
YoY growth	(4%)	29%	(21%)
PAT	23298	33005	33386
YoY growth	55%	42%	1%
EPS	9.4	13.3	13.5
P/E	37.8	26.7	26.4
P/BV	2.3	2.2	2.0
D/E	0.12	0.09	0.07
EV/EBITDA	41.4	31.7	35.6
RoE (%)	6.1	8.1	7.7
RoCE (%)	3.6	4.6	3.4

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Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	y/y %	q/q %	FY22	FY21	y/y %
Revenue	15,497	15,473	14,416	13,023	14,948	(3.5)	14.8	57,174	54,141	5.6
EBITDA	5,213	3,675	4,137	4,367	4,772	(8.5)	9.3	17,426	14,178	22.9
EBITDA Margin %	33.6	23.8	28.7	33.5	31.9	(172 bps)	(161 bps)	30.5	26.2	429 bps
Depreciation	374	369	373	367	386	3.3	5.2	1,494	1,595	(6.3)
EBIT	4,840	3,306	3,763	4,000	4,386	(9.4)	9.7	15,931	12,583	26.6
EBIT Margin %	31.2	21.4	26.1	30.7	29.3	(189 bps)	(137 bps)	27.9	23.2	462 bps
Interest charges	1,455	1,282	1,052	1,069	954	(34.4)	(10.8)	6,246	8,534	(26.8)
Other Income	1,372	1,049	747	582	649	(52.7)	11.5	4,205	5,308	(20.8)
PBT	2,512	3,073	3,458	3,512	4,080	62.4	16.2	11,646	8,396	38.7
Tax	600	838	876	910	1104	83.9	21.4	3,210	3,623	(11.4)
Effective Tax Rate (%)	23.9	27.3	25.3	25.9	27.1	316 bps	116 bps	4.3	38.7	(3443 bps)
PAT	3,795	4,053	4,696	4,770	5,192	36.8	8.8	15,009	10,936	37.2
PAT Margin %	24.5	26.2	32.6	36.6	34.7	1025 bps	(190 bps)	30.2	22.0	820 bps
EPS (Rs)	1.5	1.6	1.9	1.9	2.1	36.8	8.8	6.1	4.4	37.2

Source: Company, YES Sec

Exhibit 3: Operational Performance

Particulars (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	y/y %	q/q %	FY22	FY21	y/y %
DLF										
Sales (msf)	1.2	2.6	1.2	1.7	1.6	29.2	(8.8)	5.8	3.2	81.3
Sales (Rs mn)	20,180	27,290	20,400	20,520	25,070	24.2	22.2	72,730	30,840	135.8
Resi. Collections (Rs mn)	12,200	12,120	9,910	11,520	13,070	7.1	13.5	44,570	23,070	93.2
Rental Income (Rs mn)	610	770	810	1,000	910	49.2	(9.0)	1,950	2,020	(3.5)
Net Debt (Rs bn)	32,200	26800	22590	21420	20910	(35.1)	(2.4)	26,800	48,850	(45.1)
DCCDL										
Operational portfolio (msf)	34.5	37.9	37.9	39.6	39.6	14.8	0.0	37.9	34.2	10.8
Rental Income (Rs mn)	8,720	8,680	9,260	9,850	10,030	15.0	1.8	33,500	30,290	10.6
Office (Rs mn)	7120	7440	7590	8010	8130	14.2	1.5	28,890	27,530	4.9
Retail (Rs mn)	1,600	1,240	1,670	1,840	1,900	18.8	3.3	4,610	2,760	67.0
Gross Leasing (msf)	1.5	2.1	1.2	1.6	1.5	0.0	(6.3)	6.1	4.3	41.9
Blended Occupancy (%)	88	89	89	90	90	200 bps	0 bps	89	89	0 bps
Office (%)	86	88	88	89	89	300 bps	0 bps	88	88	0 bps
Retail (%)	97	97	98	98	98	100 bps	0 bps	97	97	0 bps
Net Debt (Rs bn)	192,590	190,630	188,030	192,610	183,940	(4.5)	(4.5)	190,630	191,920	(0.7)

Source: Company, YES Sec

Exhibit 4: SoTP valuation (WACC 11.5%, Office Cap Rate 8.5%, Retail Cap rate 7.25%)

Valuation Breakup	Rs. Mn	Rs./share	(%)	Comments
DLF Residential	152,592	62	10.9	1-year forward NAV
DLF RentCo	34,748	14	2.5	1-year forward NAV
DCCDL	431,175	174	30.7	1-year forward NAV
Less: DCCDL Debt (DLF's share)	140,579	57	10.0	DLF's share
Land Bank	949,180	383	67.5	Avg at 5100psf
Less: DLF Net Debt	20,910	8	1.5	As of 3QFY23
Total	1,406,205	568		
CMP		₹356		
Upside/(downside)		60%		

Source: Company, YES Sec

KEY PRESENTATION HIGHLIGHTS

DLF:

- DLF clocked presales of 1.55msf in Q3FY23 which translates in the sales value of Rs25070mn (22.2% q/q & 24.2% y/y) guided by the strong sales bookings in newly launched projects (DLF Valley Garden, Panchkula: Rs5400mn; The Grove, DLF 5, Gurugram: Rs15700mn) and sustained sales in 'The Camellias' of Rs1790mn and New products of Rs1270mn.
- DLF collected Rs13980mn in quarter wherein Rs13700mn (13.5% q/q & 7.1% y/y) was collected from the residential segment while remaining Rs9100mn (-9% q/q & 49.2% y/y) was rental income for DLF.
- DLF generated gross surplus of Rs6330mn while post repayment of capex advance to DCCDL of Rs5820mn, company generated net surplus of Rs510mn for the quarter.
- Blended occupancy for DLF (standalone) rental portfolio stood at 92% while retail ended the quarter with 84% and office space at 94%.

DCCDL:

- With the new addition, the portfolio now has a total leasable area of 39.6msf and clocked 90% occupancy (office 89% and retail 98%).
- DCCDL clocked total rentals of Rs10030mn (1.8% q/q & 15% y/y) wherein office assets contributed Rs8130mn (1.5% q/q & 14.2% y/y) while retail did Rs1900mn (3.3% q/q & 18.8% y/y) for the quarter.
- In Q3FY23, Net Debt stood at Rs183940mn reduced by Rs8670mn and Interest rate for portfolio increased to 7.94% from 7.52%.
- DCCDL clocked revenue of Rs13260mn (9.1% q/q & 16.6% y/y) for Q3FY23. EBITDA reported at Rs10240mn (9.6% q/q & 17.2% y/y) with an EBITDA margin of 77.2%. PAT came in at Rs3610mn (9.8% q/q & 27.1% y/y).

KEY CONFERENCE CALL HIGHLIGHTS

DLF:

- 'The Grove' newly launch project in DLF5, Gurugram is completely sold out and achieved presales of Rs15700mn in Q3FY23. Second phase of DLF Valley Garden, Panchkula clocked presales of Rs5400mn in the quarter (remaining inventory expected to launch early FY24E) and Independent floor sales was Rs1200mn.
- 89% of total presales for Q3FY23 was contributed by the new products and expect continuation of trend as company launches new projects.
- Company generated a cash surplus of Rs6330mn in the quarter while repaid capax advance of Rs5820mn to DCCDL as Hyderabad SEZ asset development push backed. (Under DAL arrangement).
- Transaction aided debt to come down to Rs20910mn in Q3FY23 from Rs21420mn in last quarter. Interest cost moved up for the quarter to 7.87%.
- With the increase in interest rate to +9% company did not witness any significant impact on footfalls as of now.
- Company plans to launch projects of Rs80bn sales potential Q4FY23:
 1. 0.8msf is Sector-93 Garden City Enclave- Independent Floors (advance stage of approvals)
 2. 2msf is Sector-63 Gurugram- Group housing (total project potential 4.4msf)
- Midtown Phase-I remaining inventory of ~Rs19bn is expected to be launched in FY24E.
- DLF's last reported share in Gurugram market is almost doubled 30%. DLF witnessed average price realization growth of +20% in the last one year against 10% national average growth.
- 'The Camallias' might take another 2years to liquidate the inventory and National DevCo (Rs12bn) inventory might take another 2-3years to fully liquidate.
- EBITDA margin will inch up to 35% as sales stabilizes.

DCCDL:

- Physical attendance at Cyber City Gurugram is at 60-65%, Chennai is at ~90% while Hyderabad is at ~30%.
- DLF received occupation certificate for Downtown Gurugram Phase 2 & 3 (1.6msf fully leased except 1-2 floors which is on hard option with some MNC tenants) in June-22 and first rentals started trickling in Nov-22 while full potential should start reflecting from Q1FY24E.
- Downtown 4 (Phase-II), Gurugram of 2msf is under construction and balance capex outlay is ~Rs7-7.5bn and expected to receive OC by Q2FY25. Downtown Chennai (3.3msf) should receive OC in Q4FY23E/Q1FY24E. Remaining capex is Rs3-3.5bn (40-35% of total capex)
- Management witnessing demand for leasing of Grade ++A buildings and development which has potential for expansion. Moreover, International tenants' emphasis more on the areas of safety, sustainability, wellness, infrastructure, and comfort of their employees over commercials initially.

FINANCIALS

Exhibit 5: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	4,951	4,951	4,951	4,951	4,951
Reserves	348,489	358,672	376,029	403,093	430,538
Net worth	353,439	363,623	380,980	408,044	435,489
Debt	66,634	39,600	46,634	36,634	31,634
Deferred tax liab (net)	5,408	8,050	8,050	8,050	8,050
Other non-current liabilities	7,295	6,121	6,121	6,121	6,121
Total liabilities	432,776	417,394	441,785	458,849	481,294
Fixed Asset	40,070	39,992	37,273	37,384	37,557
Investments	210,029	206,973	206,973	206,973	206,973
Other Non-current Assets	32,919	30,932	30,932	30,932	30,932
Net Working Capital	139,312	136,437	141,369	158,491	111,440
Inventories	210,866	201,070	204,072	224,209	172,882
Sundry debtors	5,813	5,636	6,289	7,500	5,783
Loans and Advances	16,154	17,874	17,874	17,874	17,874
Sundry creditors	20,290	23,229	21,952	26,177	20,185
Other current liabilities	88,903	76,972	76,972	76,972	76,972
Cash & equivalents	10,447	3,061	25,238	25,069	94,392
Total Assets	432,776	417,394	441,785	458,849	481,294

Source: Company, YES Sec

Exhibit 6: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
PBIT	8,396	11,646	14,674	20,854	17,117
Depreciation	1,595	1,494	1,445	1,389	1,327
Tax paid	4,015	2,198	(2,791)	(4,253)	(3,344)
Working capital Δ	(7,020)	7,540	(4,932)	(17,123)	47,051
Other operating items	7,617	5,440	17,387	21,096	23,664
Operating cashflow	14,602	28,318	25,783	21,963	85,816
Capital expenditure	(135)	(1,484)	1,274	(1,500)	(1,500)
Free cash flow	14,467	26,834	27,056	20,463	84,316
Equity raised	0	0	0	0	0
Investments	1,675	4,114	0	0	0
Debt financing/disposal	(9,009)	(21,785)	7,034	(10,000)	(5,000)
Interest Paid	(7,486)	(6,547)	(5,972)	(4,692)	(4,051)
Dividends paid	(1,988)	(4,969)	(5,941)	(5,941)	(5,941)
Other items	(3,356)	(4,982)	0	0	0
Net Δ in cash	(5,696)	(7,334)	22,177	(170)	69,324

Source: Company, YES Sec

Exhibit 7: Income statement (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	54,141	57,174	58,577	69,850	53,860
Operating profit	14,178	17,426	16,783	21,626	17,187
Depreciation	1,595	1,494	1,445	1,389	1,327
Interest expense	8,534	6,246	5,972	4,692	4,051
Other income	5,308	4,205	5,308	5,308	5,308
Profit before tax	8,396	11,646	14,674	20,854	17,117
Taxes	3,623	3,210	2,791	4,253	3,344
Adj. PAT	10,936	15,009	23,298	33,005	33,386
Net profit	10,826	15,003	23,298	33,005	33,386

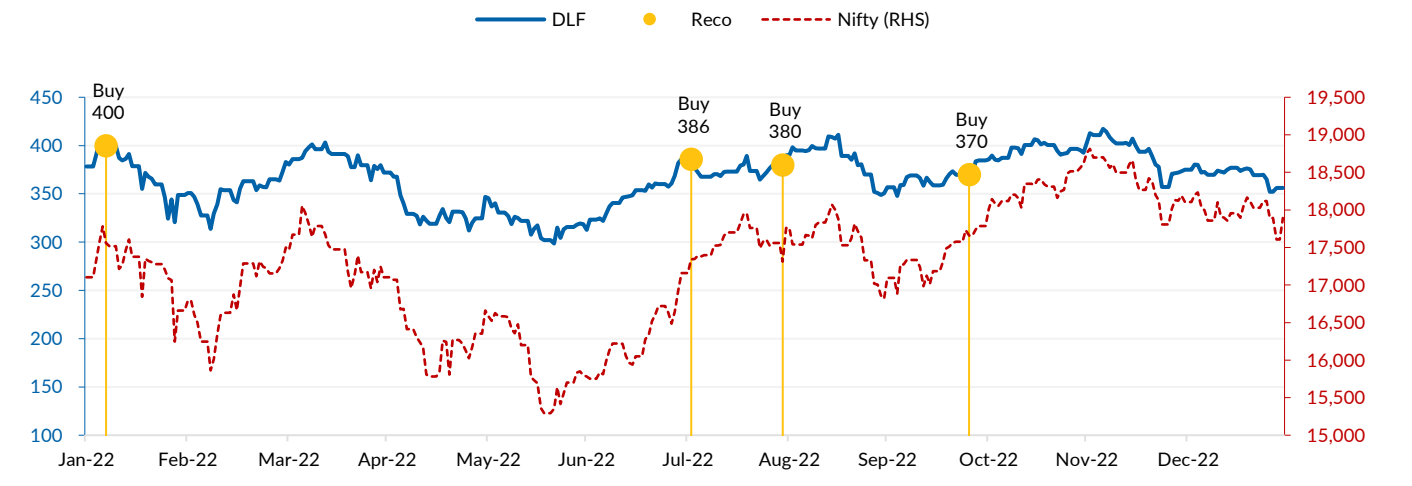
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(11.0)	5.6	2.5	19.2	(22.9)
Op profit growth	24.9	22.9	(3.7)	28.9	(20.5)
EBIT growth	34.6	26.6	(3.7)	31.9	(21.6)
Net profit growth	(228.8)	45.0	35.0	41.7	1.2
Profitability ratios (%)					
OPM	26.2	30.5	28.7	31.0	31.9
EBIT margin	23.2	27.9	26.2	29.0	29.4
Net profit margin	22.0	30.2	39.8	47.3	62.0
RoCE	3.0	4.0	3.6	4.6	3.4
RoNW	3.1	4.1	6.1	8.1	7.7
RoA	28.0	38.3	63.9	90.2	90.9
Per share ratios					
EPS	4.4	6.1	9.4	13.3	13.5
Dividend per share	0.0	3.0	2.0	2.0	2.0
Cash EPS	5.1	6.7	10.0	13.9	14.0
Book value per share	142.8	146.9	153.9	164.8	175.9
Payout (%)					
Dividend payout	0	49	21	15	15
Tax payout	39	4	19	20	20
Liquidity ratios					
Debtor days	39	39	39	39	39
Inventory days	1422	1172	1272	1172	1172
Creditor days	137	137	137	137	137

Source: Company, YES Sec

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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