Q3FY24 Result Update
DLF

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Blockbuster quarter, launch pipeline strengthens

DLFU delivered a steady set of Q3FY24 earnings, with an exceptional growth in its operational performance. Pre-sales rose 261% YoY and 306% QoQ to a record INR9,047cr given the tremendous response to the launch of DLF Privana South. Nearly 95% bookings accrued from new launches. With this, DLFU surpassed its FY24 guidance, clocking pre-sales of INR13,315cr in 9M. In FY25, it has lined up launches (10mn sq. ft.) with a GDV of ~INR32,000cr. It added a 29-acre (7.5mn sq. ft.) parcel on the Golf Course Extension Road in Gurugram in Q3FY24.
Led by the robust pre-sales, it saw 80% YoY growth in collections, resulting in a 75% growth in operating cash flow to INR1,108cr. Net cash strengthened to INR1,246cr from INR142cr in Q2FY24. Revenue from its annuity portfolio under DCCDL grew 8% YoY to INR1,476cr aided by higher occupancy in the office portfolio. With the floor-wise denotification now in force, DLFU has applied for de-notifying 1.1mn sq. ft. which will be up for leasing in Q1FY25.
We are upbeat on DLFU's growth story, given its robust launch pipeline, brand recall, favourable dynamics in its home turf, improving annuity income, and market consolidation. Led by a robust launch pipeline, steady project acquisitions, and increase in the sales velocity, we upgrade our TP to INR1,021. Maintain 'BUY'.

Robust growth in its residential business; launch pipeline strong
Pre-sales grew 261% YoY and 306% QoQ to INR9,047cr led by an exceptional response to DLF Privana South (a luxury high rise) that was fully sold out at its launch, garnering bookings of ~INR7,200cr. Two other launches, Central 67 (shop cum offices, Gurugram) and The Valley Orchard (independent floors, Panchkula), recorded bookings worth ~INR1,400cr. The rest of the bookings were from existing projects.
In FY25, it has lined up 10mn sq. ft. of launches with a GDV of ~INR32,000cr (luxury/premium/ commercial: INR24,200cr/INR7,300cr/INR500cr). Post FY25, it plans to launch 22mn sq. ft. (INR46,850cr). In total, it has a pipeline of ~INR78,850cr (32mn sq. ft.), to be launched in the next four years. To aid growth, it continues to add land. In Q3FY24, it added a 29-acre parcel on the Golf Course Extension Road with a saleable area of 7.5mn sq. ft. It expects pre-sales to exceed INR15,000cr in FY25. EBITDA margin from new launches is expected to cross 45%.

Steady growth in commercial leasing, robust occupancy in retail assets
DCCDL reported a revenue of INR1,476cr (up 8% YoY and 1% QoQ), with rental income growing 9% YoY and 2% QoQ to INR1,089cr, led by greater office occupancy and a higher rental rate. Retail revenue grew 21% YoY on higher consumption. Office revenue grew 6% on new net leases and a higher rental rate. Office occupancy improved by 200bp YoY to 91% (flat QoQ) while retail occupancy was flat at 98% (flat QoQ). EBITDA for DCCDL grew 6% YoY and 2% QoQ to INR1,126cr, with a margin of 76.3% (versus 77.8% YoY and 75.8% QoQ). Pre-leasing of under-development properties improved to 91% from 89% QoQ. Rentals from Downtown Chennai/ Downtown Gurugram are expected to flow in from Q1FY25/Q1FY26. With the floor-wise denotification now in force, DLFU has applied for de-notifying 1.1mn sq. ft. and expects occupancy in SEZ assets to improve in the next three-to-four quarters.

Cash flows impress, DevCo's cash position strengthens further
Led by strong pre-sales, DLFU reported record collections of INR2,516cr (up 80% YoY), resulting in a strong quarterly OCF (post-interest) of INR1,108cr (up 75%). This aided the DevCo to improve its net cash position to INR1,246cr as of December from INR142cr as of September 2023. Cost of debt fell 1bp QoQ to 8.11%. Net debt in DCCDL fell 2% YoY to INR18,114cr.

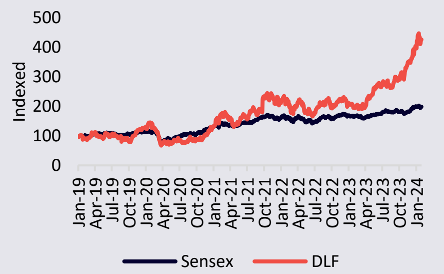
Maintain 'BUY' with a SoTP-based TP of INR1,021
We remain upbeat on DLFU's growth prospects, driven by strong sectoral tailwinds (industry-wide consolidation, record low inventory in its home market, and greater preference for branded luxury inventory), an extensive launch pipeline, and expansion of its annuity portfolio. A strong Balance Sheet with consistent cash flow lends further comfort. We upgrade our TP to INR1,021 (INR671 earlier) on a higher sales velocity and a strong launch pipeline. Maintain 'BUY'.

Key financials

Year to March (INR cr)	FY23	FY24E	FY25E	FY26E
Revenue	5,695	5,859	6,099	7,627
EBITDA	1,726	1,837	1,987	2,348
Adjusted profit	2,036	2,268	2,445	2,940
Diluted EPS (INR)	8.2	9.2	9.9	11.9
EPS growth (%)	18	11.4	7.8	20.2
RoE (%)	5.5	5.9	6.2	7.2
P/E ratio (x)	56.9	83.9	77.8	64.7
EV/EBITDA ratio (x)	67.6	102.9	94.8	79.9
Dividend yield (%)	0.9	0.5	0.5	0.5

CMP: INR769
Rating: BUY
Target price: INR1,021
Upside: 33%
Date: January 30, 2024

Bloomberg:	DLFU:IN
52-week range (INR):	336/815
Shares in issue (cr):	247.5
M-cap (INR cr):	1,90,290
Promoter holding (%)	74.08



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Q3FY24 result highlights

(INR cr)	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
Net sales	1,521	1,495	2%	1,348	13%
Cost of land	664	617	8%	580	15%
Employee expense	126	134	(6%)	124	1%
Other expenses	221	266	(17%)	182	21%
Operating expenses	1,010	1,018	(1%)	885	14%
EBITDA	511	477	7%	462	11%
Depreciation	38	39	(2%)	37	3%
EBIT	473	439	8%	425	11%
Interest	84	95	(12%)	90	(7%)
Other income	122	65	88%	129	-5%
PBT	512	408	25%	464	10%
Tax	135	110	22%	112	20%
PAT	377	298	26%	352	7%
Minority interest after net profit	(1)	(1)	n.m.	(1)	n.m.
Share of profit/loss from associate company	279	220	27%	270	3%
PAT after minority interest and associate’s share	657	519	26%	623	5%
Exceptional items	-	-	-	-	-
Reported PAT	657	519	26%	623	5%
EPS	2.7	2.1	26%	2.5	5%
EBITDA margin	33.6%	31.9%		34.3%	
PAT margin	43.2%	34.7%		46.2%	
Tax rate	26.4%	27.1%		24.2%	

Residential (INR cr)	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
Pre-sales	9,047	2,507	261%	2,228	306%
Collections	2,516	1,398	80%	2,359	7%
Post interest operating cash flow	1,108	633	75%	1,230	(10%)
Net debt (residential)	(1,246)	2,091	(160%)	(142)	(777%)

Commercial (DCCDL) (INR cr)	Q3FY24	Q3FY23	YoY	Q2FY24	QoQ
Leasable area (mn sq. ft.)	39.7	39.6		39.7	
Occupancy	92%	90%	200bp	92%	nil
Net debt	18,114	18,394	(2%)	18,026	nil
Total revenue	1,476	1,363	8%	1,463	1%
Rental income	1,089	1,003	9%	1,069	2%
EBITDA	1,126	1,061	6%	1,109	2%
EBITDA margin	76.3%	77.8%	(156bp)	75.8%	48bp

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Key takeaways from the management interaction

- The management is bullish on overall demand momentum in the residential real estate sector, driven by a greater preference for owning a house, skew towards larger-sized luxury inventory, increasing share of organised and branded players, and overall consolidation in the market. On the leasing side, it sees an uptick in occupancy in SEZ assets as the government has now approved floor-wise denotification of zones in IT SEZs. Retail leasing delivers healthy growth on improving consumption.

- In Q3FY24, ~95% of pre-sales (~INR8,600cr) came from three launches,
  i) DLF Privana South, Sector 76/77, Gurugram | ~INR7,200cr in pre-sales: DLF Privana South (with a saleable area of ~4mn sq. ft.) is a luxury high-rise project spread across 25 acres. This is a part of a larger development which will expand to 116 acres over multiple phases going forward. The project was fully sold out at launch at an average of ~INR18,000/sq. ft.
  ii) The Valley Orchard, Panchkula, Chandigarh | ~INR700cr in pre-sales: The Valley Orchard is a luxury low-rise independent floor project with a saleable area of ~1msf (~15 acres), of which ~82% was sold out at a realisation of ~INR9,000/sq. ft.
  iii) Central 67, Sector 67, Gurugram | ~INR710cr in pre-sales: Spread across 8.7 acres, with a saleable area of 14,600 sq. yard, Central 67 is a shop cum office development, which was fully sold out at launch. Average realisation was ~INR5lk/sq. yard.
- In FY25, DLFU plans to launch 10mn sq. ft. (luxury/premium/commercial: 5.8mn sq. ft./4.2mn sq. ft./0.01mn sq. ft.) with a GDV of ~INR32,000cr (luxury/premium/commercial: INR24,200cr/INR7,300cr/INR500cr). Few of its key launches include: i) the Phase II of DLF Privana (~800 apartments), ii) a super luxury project in DLF 5 (~450 apartments spread over 3mn sq. ft. planned in Q1/Q2FY25), and iii) Phase I of Mumbai project (~1mn sq. ft.). It is also looking to add projects in Goa, Chennai, and Panchkula.
- Post FY25, it has lined up launches of 22mn sq. ft. (luxury/premium/JV/commercial: 5.3mn sq. ft./8.7mn sq. ft./5.9mn sq. ft./2.71mn sq. ft.) with a GDV of ~INR46,850cr (luxury/premium/JV/commercial: INR15,000cr/INR15,000cr/INR14,500cr/ INR2,350cr).
- As of December 2023, DLFU had an unsold inventory of INR1,954cr (Q2FY24: INR2,024cr) in its completed projects (The Camellias/others: INR908cr/INR1,046cr). Inventory in ongoing projects stood at INR2,457cr (Q2FY24: INR2,220cr). Of the products sold till date, it has receivables of INR21,186cr and a deferred revenue of INR36,238cr.
- It added a 29-acre parcel in Sector 61 Gurugram, with a development potential of 7.5mn sq. ft. While the development plan is yet to be finalised, this may be a luxury high rise project that could realise in excess of INR18,000/sq. ft. The property is close to The Arbour. The management expects a lead time of at least one year for coming to the market.
- In its leasing segment, it saw a healthy pre-leasing of 92%/90% in its WIP assets of Downtown Gurugram/Downtown Chennai which are clocking monthly rentals of ~INR150/INR100 per sq. ft.
- In its operational non-SEZ assets, it achieved a net leasing of 1mn sq. ft. in the last one year, with a significant portion accruing from Cyber City (~0.8mn sq. ft.). Global capability centres are the key demand drivers given their preference for quality grade A inventory, which not many developers offer in NCR.
- In December 2023, the government approved a floor-wise denotification of commercial offices in IT SEZs. Accordingly, DLFU has applied for de-notification of 1.1mn sq. ft. of its SEZ inventory, which will be up for leasing in Q1FY25. It expects a steady increase in occupancy in SEZ offices over the next three-to-four quarters.

Strong cash surplus aids debt repayment

INR cr	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	FY22	FY23	9MFY24
Inflows								
Collections from sales	1,307	1,842	1,472	2,282	2,425	4,457	5,293	6,179
Rentals	91	86	104	76	90	195	357	270
Total inflows	**1,398**	**1,928**	**1,576**	**2,358**	**2,515**	**4,652**	**5,650**	**6,449**
Outflows								
Construction	298	390	315	349	467	570	1,183	1,131
Government and land charges	54	128	150	417	485	469	453	1,052
Overheads	174	194	201	268	214	589	775	683
Marketing and brokerage	109	98	113	97	230	145	346	440
Tax (net)	(5)	(2)	2	6	9	(200)	(61)	17
Sub-total	630	808	781	1,137	1,405	1,573	2,696	3,323
Operating cash flow	768	1,120	795	1,221	1,110	3,079	2,954	3,126
Finance cost (net)	68	81	60	(9)	3	449	268	54
Operating cash flow after interest	**700**	**1,039**	**735**	**1,230**	**1,107**	**2,630**	**2,686**	**3,072**
Capex outflow and others	67	77	67	85	262	231	259	414
Surplus/(shortfall)	633	962	668	1,145	845	2,400	2,427	2,658
Interim dividend	-	(408)	-	949	(258)	195	(117)	691
Repayment of capex advance	582	-	-			-	582	-
Net surplus/(shortfall)	**51**	**1,370**	**668**	**196**	**1,103**	**2,205**	**1,962**	**1,967**

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Valuation and view

DLFU delivered robust pre-sales and healthy free cash flows, strengthening its Balance Sheet. It enjoys a strong cash profile in the residential business, with a sizeable land bank to ensure growth without any major land investments. A robust pipeline in the DCCDL portfolio, aided by a healthy recovery in retail rentals and higher occupancy in the office portfolio, creates a very strong annuity model. We upgrade our TP to INR1,021 (earlier INR671) given the significant scale up in sales velocity, expansion of its launch pipeline, and steady project additions. Strong pre-sales and a robust launch pipeline will aid cash flows and improve its financial performance. We add a 25% premium to our NAV estimate of INR817/share. Maintain 'BUY'.

Segment	Value (INR cr)	Per share
Value of the future land bank	1,52,377	616
Value of other rental assets	3,905	16
Value of ongoing projects	24,203	98
Less: Net debt (DLFU's share)	(1,452)	(6)
DLFU's development company	**1,81,937**	**735**
Value of DCCDL's rental assets	50,310	203
Less: Net debt	19,659	79
Value of DCCDL	30,651	124
DLFU's share in DCCDL's value	**20,230**	**82**
NAV	**2,02,167**	**817**
Premium/(discount) to NAV	25%	
Target price	**2,52,709**	**1,021**

Rationale for assigning a 25% premium to its NAV:

i) DLFU being a premium brand must command an equity investment scarcity premium.

ii) A robust rental portfolio which lends higher visibility to growing its rental income.

iii) Ability to grow its rental portfolio from internal accruals.

iv) A lean Balance Sheet and an improving cash flow trajectory.

v) Lack of quality competitors in the NCR market.

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Financials

Income Statement (INR cr)

Year to March	FY23	FY24E	FY25E	FY26E
Total operating income	5,695	5,859	6,099	7,627
Gross profit	3,261	3,426	3,633	4,055
Employee cost	548	592	639	690
Other expenses	987	997	1,007	1,017
EBITDA	1,726	1,837	1,987	2,348
Depreciation	149	152	157	168
Less: Interest expense	392	319	310	303
Add: Other income	317	333	350	329
Profit before tax	2,435	2,696	2,916	3,495
Provisions for tax	402	428	471	556
Less: Other adjustments	-	-	-	-
Reported profit	2,036	2,268	2,445	2,940
Less: Exceptional items (net)	-	-	-	-
Adjusted profit	2,036	2,268	2,445	2,940
Diluted shares outstanding	248	248	248	248
Adjusted diluted EPS	8	9	10	12
DPS (INR)	4	4	4	4
Tax rate (%)	16	16	16	16
Dividend payout (%)	49	44	40	34

Common size metrics as a percentage of net revenue

Year to March	FY23	FY24E	FY25E	FY26E
Operating expenses	69.7	68.6	67.4	69.2
Depreciation	2.6	2.6	2.6	2.2
Interest expenditure	6.9	5.4	5.1	4
EBITDA margin	30.3	31.4	32.6	30.8
Net profit margin	35.7	38.7	40.1	38.5

Growth metrics (%)

Year to March	FY23	FY24E	FY25E	FY26E
Revenue	(0.4)	2.9	4.1	25.1
EBITDA	(1)	6.5	8.2	18.1
PBT	33.7	10.7	8.2	19.9
Net profit	18	11.4	7.8	20.2
EPS	18	11.4	7.8	20.2

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Balance Sheet (INR cr)

As of March 31	FY23	FY24E	FY25E	FY26E
Share capital	495	495	495	495
Reserves	37,192	38,318	39,562	41,300
Shareholders' funds	37,688	38,813	40,057	41,795
Minority interest	4	4	4	4
Borrowings	3,103	3,010	2,919	2,880
Trade payables	10,473	11,764	12,791	13,669
Other liabilities and provisions	1,304	1,304	1,304	1,304
Total liabilities	**52,572**	**54,895**	**57,076**	**59,652**
Net block	3,841	3,794	3,822	3,839
Intangible assets	944	944	944	944
Capital WIP	61	81	101	121
Total fixed assets	4,847	4,820	4,868	4,905
Non-current investments	19,481	19,481	19,481	19,781
Cash and cash equivalent	2,275	4,283	4,873	5,556
Sundry debtors	549	527	549	686
Loans and advances	1,022	1,114	1,215	1,324
Other assets	24,398	24,670	26,091	27,401
Total assets	**52,572**	**54,895**	**57,076**	**59,652**

Ratios

Year to March	FY23	FY24E	FY25E	FY26E
RoE (%)	5.5	5.9	6.2	7.2
RoCE (%)	4.7	4.9	5.1	5.7
Inventory days	2,959	2,933	3,033	2,226
Receivable days	36	34	32	30
Payable days	1,530	1,668	1,817	1,352
Working capital (as a percentage of sales)	270.6	246.8	245.6	205.3
Gross debt/equity ratio (x)	0.1	0.1	0.1	0.1
Net debt/equity ratio (x)	0	0	0	(0.1)
Interest coverage ratio (x)	4	5.3	5.9	7.2

Valuation parameters

Year to March	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	8.2	9.2	9.9	11.9
Diluted P/E ratio (x)	56.9	83.9	77.8	64.7
Price/BV ratio (x)	3.1	4.9	4.8	4.6
EV/EBITDA ratio (x)	67.6	102.9	94.8	79.9
Dividend yield (%)	0.9	0.5	0.5	0.5

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