



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score

NEW

ESG RISK RATING
Updated Aug 08, 2023 **18.19**

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 1,55,957 cr
52-week high/low:	Rs. 641 / 337
NSE volume: (No of shares)	101.7 lakh
BSE code:	532868
NSE code:	DLF
Free float: (No of shares)	64.2 cr

Shareholding (%)

Promoters	74.1
FII	15.9
DII	5.3
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	18.8	30.3	35.3	60.7
Relative to Sensex	15.8	29.2	28.5	54.7

Sharekhan Research, Bloomberg

DLF Ltd

Ultra-luxury demand in NCR on a roll

Real Estate	Sharekhan code: DLF		
Reco/View: Positive	↔	CMP: Rs. 630	Upside potential: 25%
↑ Upgrade	↔ Maintain	↓ Downgrade	↑

Summary

- The NCR residential market has been witnessing significant traction in new unit launches and sales, which have grown by 153% y-o-y and 101% y-o-y, respectively during 9MCY2023.
- NCR region saw the sharpest (21% y-o-y) decline in inventory in Q3CY2023 among top seven cities. Strong demand has driven up average residential prices by 12% y-o-y.
- Ultra-luxury segment now comprises a 38% share in new launches, while it forms just 9% of available inventory in Q3CY2023 providing pricing led growth tailwinds.
- We reiterate our Positive view on DLF with an upside potential of 25%, increasing our NAV premium accounting for strong residential growth outlook in its key NCR market.

DLF is expected to benefit from strong residential demand in its key NCR market especially in the ultra-luxury segment with price appreciation tailwinds. NCR has seen a strong rise in residential unit launches and sales of 153% y-o-y and 101% y-o-y during 9MCY2023. Inventory saw highest 21% y-o-y dip in Q3CY2023 as compared to 3% y-o-y dip in top seven cities while average prices are up 12% y-o-y. Ultra-luxury segment in NCR is seeing significant momentum with a 38% share in new launches in Q3FY2023 compared to 21%/2% in CY2022/CY2021. Limited available inventory (9% as on Q3CY2023-end) is expected to drive up prices. DLF, with more than half of its exposure towards the luxury segment in its inventory and planned portfolio is slated to benefit from the same.

- NCR residential market on an upswing:** NCR region saw significant traction in new unit launches during Q3CY2023, which were up 44% y-o-y and 8% q-o-q. During 9MCY2023, NCR has seen 153% y-o-y rise in new unit launches compared to 20% y-o-y dip registered during CY2022. The units sold during Q3CY2023 saw a 6% y-o-y growth (down 3% q-o-q) while during 9MCY2023, units sold have risen by 101% y-o-y compared to 59% y-o-y growth seen during CY2022.
- NCR sees sharp inventory liquidation & rise in prices:** Inventory overhang continued to ease with available inventory as on Q3CY2023 at 20 months of TTM sales as compared to 24 months in Q3CY2022. It is noteworthy that NCR region has seen the highest 21% y-o-y dip in inventory as compared to 3% y-o-y dip across top seven cities in India. Strong demand has also led to 12% y-o-y increase in average residential prices compared to 7.5% y-o-y increase seen in top seven cities in India.
- Ultra-luxury demand-supply dynamics to benefit DLF:** The strong demand for ultra-luxury residential units has led to Ultra-luxury segment gaining a lion's share in new launches during Q3CY2023 at 38% from just 11% during Q2CY2022 and 21%/2% during CY2022/CY2021. While, the available inventory for the same has marginally increased to 9% in Q3CY2023 from 6% in Q2CY2022 and 7% in CY2022. Strong absorption of ultra-luxury residential projects and limited inventory has led to a surge in prices which is expected to benefit DLF which has more than 50% exposure in its available inventory (Rs. 4,244 crore) and planned projects (Rs. 19,710 crore).

Our Call

Valuation – Retain Positive view with an 25% upside potential: DLF is expected to report healthy sales bookings led by a strong launch pipeline for the next two years, which is expected to sustain, given healthy demand momentum with a possible peaking out of interest rates. Its rental portfolio is gradually witnessing higher physical occupancies while focusing on doubling its retail portfolio over the next 4-5 years. The company has de-leveraged its development business. DLF's strong leadership position in Delhi-NCR, a strong residential project pipeline, increasing rental portfolio, large land reserves at low carrying costs and a strong housing market tailwinds provide a high-growth opportunity. We retain a positive view on the stock with a potential upside of 25%, as we increase our NAV premium considering strong residential market growth outlook in its key NCR region.

Key Risks

A slowdown in real estate demand, especially in the Delhi-NCR region, is a key risk to our call. Unfavourable macro indicators, such as a rise in interest rates, can dampen demand.

Valuation (Consolidated)

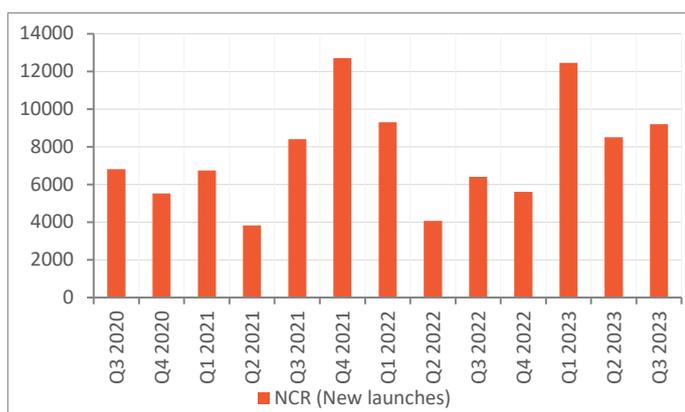
Particulars	Rs cr			
	FY23	FY24E	FY25E	FY26E
Revenue	5,694.8	6,234.3	6,939.8	7,729.4
OPM (%)	30.3	30.9	31.5	31.6
Adjusted PAT	2,035.8	2,328.4	2,571.5	2,827.1
% YoY growth	18.0	14.4	10.4	9.9
Adjusted EPS (Rs.)	8.2	9.4	10.4	11.4
P/E (x)	76.6	67.0	60.6	55.2
P/B (x)	4.1	3.9	3.7	3.5
EV/EBITDA (x)	79.6	71.3	62.9	56.2
RoNW (%)	5.5	6.0	6.3	6.6
RoCE (%)	6.0	6.1	6.4	6.7

Source: Company; Sharekhan estimates

NCR sees strong demand, declining inventory and increased prices

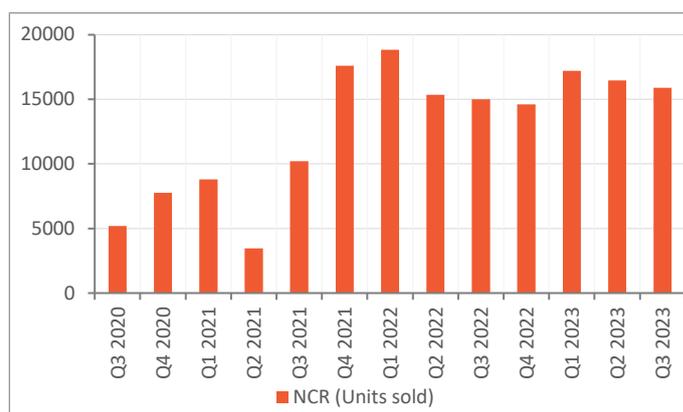
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NCR New unit launches



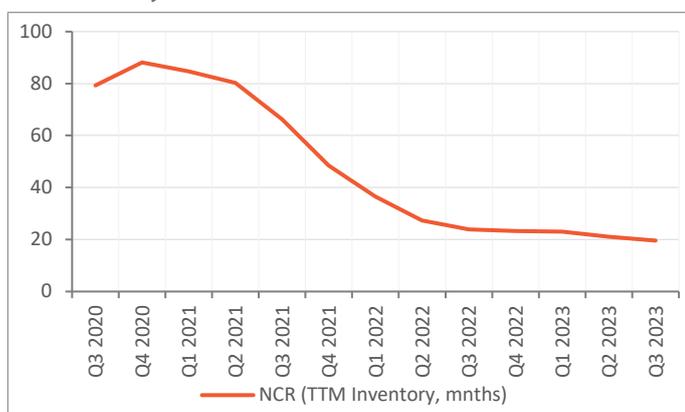
Source: Anarock, Sharekhan Research

NCR - Units sold



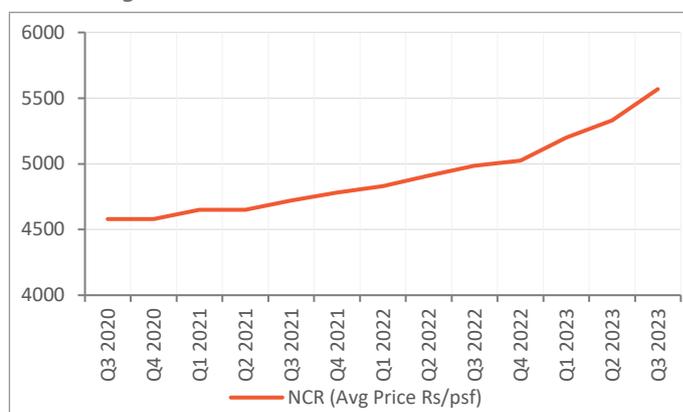
Source: Anarock, Sharekhan Research

NCR Inventory



Source: Anarock, Sharekhan Research

NCR Average Prices

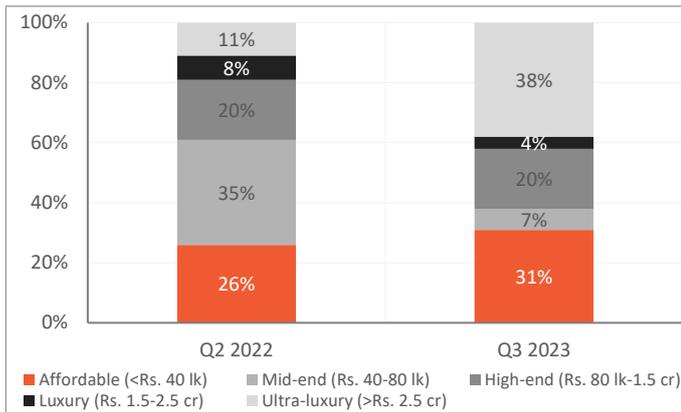


Source: Anarock, Sharekhan Research

DLF to benefit from favourable demand-supply dynamics in Ultra-luxury

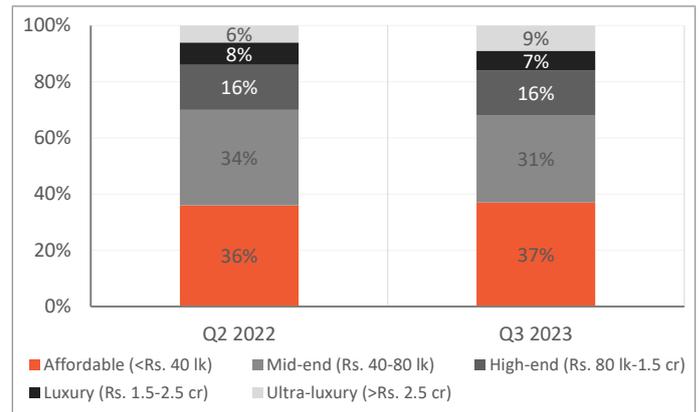
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NCR Q32023 Launch Mix



Source: Anarock, Sharekhan Research

NCR Q32023-end Inventory Mix



Source: Anarock, Sharekhan Research

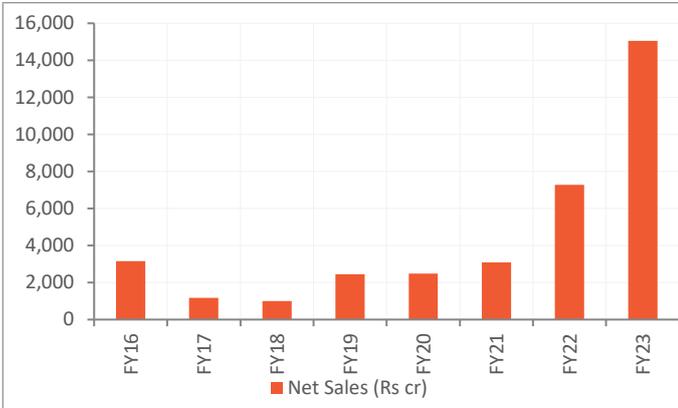
DLF Launch Calendar (New Products)

Project	Planned FY2024		Beyond FY2024	
	msf	Rs cr.	msf	Rs cr.
Luxury Segment	5	12,400	-	-
Midtown, DLF-GIC Residential JV	-	-	6	13,100
Premium/Value	5	6,000	-	-
Commercial	0.7	660	0.9	1,975
Atrium Place (Commercial JV)	-	-	2.9	7,000
Noida IT Park	0.8	650	2.7	1,850
TOTAL	11.2	19,710	12	23,900

Source: Company; Sharekhan Research

Financials in charts

Net Sales Trend



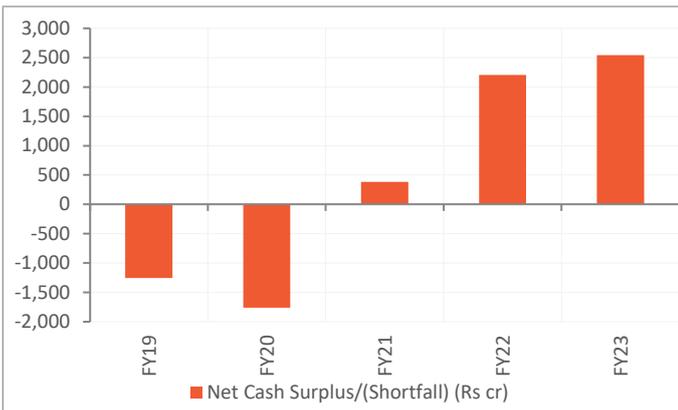
Source: Company, Sharekhan Research

Collections Trend



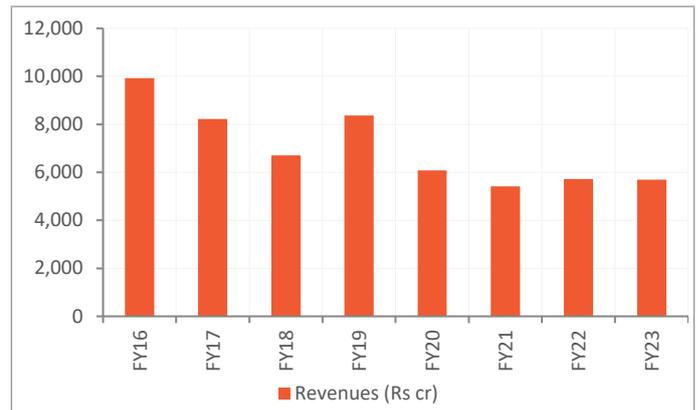
Source: Company, Sharekhan Research

Net Cash surplus/shortfall Trend



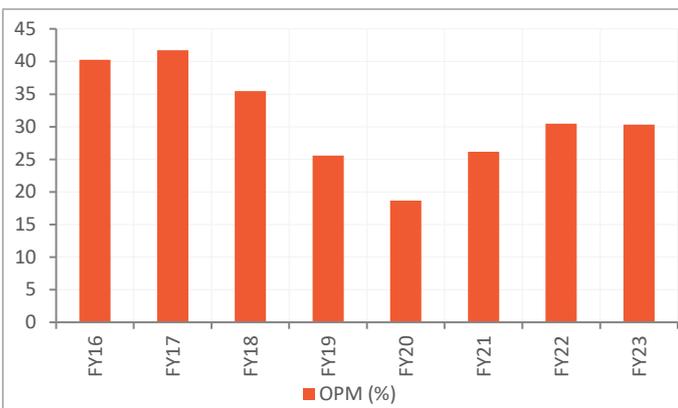
Source: Company, Sharekhan Research

Revenue Trend



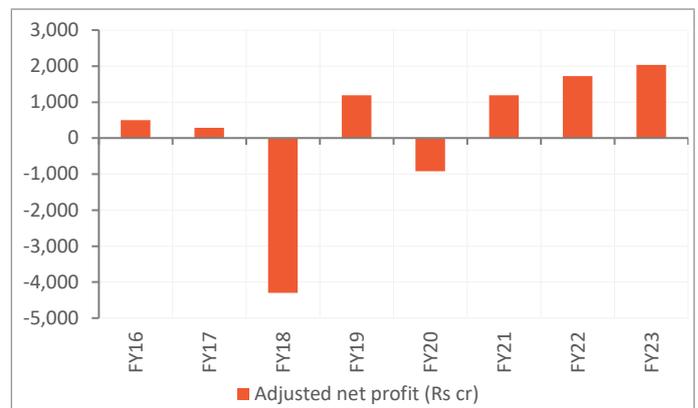
Source: Company, Sharekhan Research

OPM Trend



Source: Company, Sharekhan Research

Net Profit Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Residential market on a growth trajectory

The real estate sector, especially the residential realty market, is expected to be in the limelight, as it benefits from the central and state governments' favourable policies about the affordable housing segment. Rising income and affordability levels are expected to drive sales for quality organised developers. Further, organised players are expected to benefit from ample inorganic opportunities in the sector, leading to consolidation in the sector. The sector is also expected to benefit from low-interest rates, which drive demand and reduced funding costs. Overall, we are positive about the residential real estate segment for the aforementioned reasons.

■ Company Outlook – Strong growth tailwinds in both the near and longer-term

DLF, a leader in its core Delhi-NCR real estate market, is a proxy play on the entire real estate sector due to its presence across residential, office, and retail sub-segments. The company's sales and cash flows are expected to be driven by 41 million square feet (msf) of residential project pipeline estimated to be worth Rs. 67,645 crore over the medium term. The company's rental office portfolio in DCCDL is slated to add 5.4 msf of assets under construction and scalability to 70msf over the longer term from 40msf. Its land bank, with a development potential of 187 msf at a low carrying cost, provides steady and sustainable project pipeline visibility along with better OPMs.

■ Valuation – Retain Positive view and upside potential of 25%

DLF is expected to report healthy sales bookings led by a strong launch pipeline for the next two years, which is expected to sustain, given healthy demand momentum with a possible peaking out of interest rates. Its rental portfolio is gradually witnessing higher physical occupancies while focusing on doubling its retail portfolio over the next 4-5 years. The company has de-leveraged its development business. DLF's strong leadership position in Delhi-NCR, a strong residential project pipeline, increasing rental portfolio, large land reserves at low carrying costs and a strong housing market tailwinds provide a high-growth opportunity. We retain a positive view on the stock with a potential upside of 25%, as we increase our NAV premium considering strong residential market growth outlook in its key NCR region.

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Oberoi Realty	26.7	22.9	19.6	16.9	3.5	3.1	14.5	14.7
DLF	67.0	60.6	71.3	62.9	3.9	3.7	6.0	6.3
Macrotech	69.4	45.0	26.5	17.9	5.7	5.1	9.2	12.7

Source: Sharekhan Research

About company

DLF is India's leading real estate developer with over seven decades of track record. DLF has developed 153 real estate projects and an area of approximately 330 million square feet. DLF Group has 215 MSF (approx.) of development potential across the residential and commercial segments. The group has an annuity portfolio of over 40 MSF (approx.). DLF is primarily engaged in the business of development and sale of residential properties (the 'Development Business') and the development and leasing of commercial and retail properties (the 'Annuity Business').

Investment theme

DLF's strong leadership position in Delhi-NCR, strong residential project pipeline, increasing rental portfolio, large land reserves at low carrying cost, and strong housing market tailwinds provide high-growth opportunities. DLF offers a long-term play on the real estate market, with its presence across residential, office, and retail sub-segments. The company's sales and cash flows are expected to be driven by 41msf of residential project pipeline estimated at Rs. 67,645 crore over the medium term. The company's rental office portfolio in DCCDL is slated to add 5.4msf assets under construction and scalability to 70msf over the longer term from 40msf.

Key Risks

- ◆ Slowdown in the macro-economic environment percolating to the real estate sector slowdown.
- ◆ Delay in execution, inability to maintain sales, rising interest rates, and rising commodity prices.

Additional Data

Key management personnel

Mr. Rajiv Singh	Chairman and Managing Director
Mr. Ashok Kumar Tyagi	Executive Director - CEO
Mr. Devinder Singh	Executive Director - CEO
Mr. Vivek Anand	Group Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Rajdhani Invest & Agencies	61.53
2	Invesco Ltd.	5.54
3	Prem Traders & Inv. Pvt. Ltd.	3.64
4	Mallika Housing Company	3.14
5	Raisina Agen & Invest Ltd.	2.66
6	Jhandewalan Ancillaries & Inv Ltd.	1.91
7	Vanguard Group	1.03
8	SBI Funds Management	0.87
9	Singh Pia	0.86
10	BlackRock Inc.	0.80

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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