"DLF Limited

Q2 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to DLF Limited Q2 FY '24 Earnings Conference Call. We have with us today on the call Mr. Ashok Tyagi Whole-Time Director and Managing Director, DLF Limited; Mr. Vivek Anand, Group CFO; Mr. Sriram Khattar, Vice Chairman and MD, Rental Business; Mr. Aakash Ohri, Joint Managing Director and Chief Business Officer.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vivek Anand. Thank you, and over to you, sir.

Vivek Anand: Thank you. Good evening, and welcome to DLF Limited Quarter 2 Financial Year '24 Earnings Webcast. Thank you for joining us today. We are happy to announce that our business delivered a strong performance across parameters. I will start with the financial highlights for quarter 2 financial year '24 DLF Limited consolidated.

The consolidated revenue stood at INR1,476 crores, gross margin at 57%, EBITDA stood at INR591 crores, reflecting year-on-year growth of 19%. Net profit at INR629 crores, reflecting year-on-year growth of 29%. Record surplus cash generation from operations at INR1,147 crores.

New sales bookings for the quarter stood at INR2,228 crores, in line with our guidance. Our new products and existing inventory continue to even strong consumer interest. Our super luxury offerings, the Camellias and DLF 5 Gurgaon saw healthy demand during the quarter and continues to set new benchmarks, indicating strong demand for high-quality residential products backed by a strong brand. We continue to see sustained demand momentum across all segments and hence, keep a positive outlook on the housing cycle.

Our new product launches that have been planned for the second half of the fiscal remains on track, and we remain committed to bringing calibrated supply across our key markets and leverage this growth cycle.

Collections continue to remain healthy, resulting in record cash flow generation during the quarter. Consequently, post dividend payout of INR990 crores, we achieved a net cash position of INR142 crores at the end of the second quarter. We have, therefore, delivered on our commitment to achieving a net debt zero position. We'll continue to further strengthen our balance sheet through consistent cash generation.

I'll now move to the financial highlights for quarter 2 financial year '24 DLF Cyber City Developers Limited consolidated results. Rental income grew to INR1,069 crores, year-on-year growth 9%. Consolidated revenue of INR1,463 crores, reflecting a 7% year-on-year growth. EBITDA stood at INR1,109 crores, a year-on-year growth of 6%. And a net profit INR416 crores, reflecting a year-on-year growth of 17%. Our office occupancy improved to 91% at the end of the quarter versus 88% in the previous quarter. Occupancy across the non-SEZ segment has reached back to 97%, demonstrating the high-quality and inherent demand for such products, while SEZ occupancy stood at 85%.

Our new office developments continue to garner occupier interest, and consequently have achieved a pre-leasing of 89% across our 2 new office complexes, DLF Downtown in Gurugram and Chennai. Retail business continues its growth trajectory and our progress towards expanding our retail offering stays on track. We expect construction of a large retail complex in Gurugram to start during the fiscal.

I'm happy to share that U.S. Green Building Council recognized the sustainability achievements and commitments of our rental business at the Greenbuilding International Conference and Expo held in Washington, D.C., U.S.A. and recognize the business as a whole -- as a world leader in LEED Zero Certification and LEED for existing building platinum-certified space.

This recognition is a testament to DLF commitment towards sustainability and adoption of green building practices in the country. We strongly believe that our healthy pipeline of new products, along with the resilient, as well as a steadily growing rental portfolio, will result in delivering consistent and profitable growth across our businesses.

I will now like to hand over to Sriram to say a few words, right? Before we open this to Q&A session.

Sriram Khattar: Thanks, Vivek. It gives me a lot of pleasure to share with all of you that the U.S. Green Business Council at the annual expo recognized DCCDL and DLF as world leaders in sustainability. And I'll just read out parts of the felicitation that they did there. It says DLF has become the worldwide leader in both LEED zero certifications and LEED for existing buildings platinum-certified spaces, which are extraordinary achievements. It also goes on to say that as the largest public listed real estate company in India, your actions and leaderships are influential and inspirational. You are setting a standard for sustainability, excellence to which others may aspire.

I am honoured to recognize you're creating a sustainable build environment in the Greenbuild International Conference and Expo. U.S. Green Business Council could not be prouder to work with a global partner like DLF, leading the transformation and LEED generation of the build environment across India and throughout the world. I think this was an extraordinary achievement for us recognized by the highest body in sustainability in the world.

And we continue on our journey on this. We have got the LEED zero for waste certification for our Cyber City in Hyderabad, and now we are replicating it across all our projects. And this is in line with our long-term goals of being leaders. Definitely in India and preferably across the globe in sustainability.

Sriram Khattar: Thank you, Vivek. Back to you.

Vivek Anand: Thanks Sriram. Thank you. Yes, we can open it up for Q&A now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, may press star and one on their touch tone telephone. If you wish to remove yourself from question queue, you may press star and 2. Ladies and Gentlemen, we will wait for a while till the question queue assembled. Our first question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir congratulations, Team DLF for achieving this positive net cash after guiding for almost 7 years. So seems to be a similar quarter for you guys. So I had a few questions. So 1 is, on Camellias, Aakash, so 14 apartments for INR712 crores. So fair to say that the pricing has now gone to INR70,000 crores, INR75,000 crores, if I just kind of do some back calculation on this unit sales? So that's the first one.

The second is on your cash flow. So our construction spends are still relatively low. Now as your construction spends kind of move to the -- and you have 30 million square feet under construction, so your construction spend maybe ramp up to maybe INR2,000- crores, INR2,500 crores a year, would you think that your cash flow is now we set still to this INR1100 crores-INR1200 crores that you are kind of generating right now? Or is this, in some sense, be cash flow what we're seeing?

The third is essentially just on your debt. Sir, what's the logic of keeping INR3,000 crores of debt and then INR3,200 crores of cash on balance sheet, that I could not finally figure out? And lastly, one for Mr. Khattar. So it seems to me basis your presentation, you don't have any space available for marketing in the non-SEZ space in this DCCDL whereas you may have some vacancies SEZ, but the non-SEZ space is not available. So what are your thoughts in terms of getting that space to market because that's where the demand seems to be? So these are few ones.

Aakash Ohri: Okay. So thanks, Saurabh. So in Camellias, we are above the INR75,000, you're right, mark. And now, as you know, we've got the last few to go. But I'm sure you would have read the Economic Times article. So very happy for Gurgaon to have reached that INR100 crore mark for one apartment. And I think that is something that is obviously everybody is quite excited about.

So yes, Camellias is upwards of the number that you mentioned. So what you actually mentioned was the previous pricing and then it's gone up further. It's closer to what was being reported. And the only difference being that we have a price difference between lower, mid- and high floors. So that's where we are with Camellias. And I think we've been part of this journey, so where we started to where we are.

And thankfully, there is -- it's backed by not just speculation, it's backed by solid demand, and therefore, the new Super luxury product that we were talking about earlier also, where we have -- we've also mentioned about it in our guidance. So based on the services, operations, strong demand, I'm happy to also mention to you that, today, Camellias has become the benchmark for the country and very proudly so.

So not only here, but anywhere in the world, when real estate is mentioned, I think Camellias today is being deferred as an India product. So I think that is a bigger satisfaction than just reaching INR100 crore mark. So yes, that's where we are, Saurabh.

Vivek Anand: Yes. Saurabh, on the construction spend, first of all, last year, our total spend and annual spends were close to INR1,200 crores. First half, we spent INR650 crores and the second half, our estimate is we'll be spending close to INR1,000 crores. So on an annualized basis, we'll be spending around INR1,700 crores. Second half, we expect to start giving possessions for a large part of our floors. So that will increase our spending, plus the Arbour project pace is going to pick up in the second half.

So there will be a large part of outflow coming up in the second half. The second part of your question was cash flow from operations. Yes, in the first half, we have achieved cash flow from operations of INR2,000 crores. And if you remember, the guidance I had given was upwards of INR3,000 crores on an annualized basis. So yes, considering our performance in the first half, I see an upside in our cash flow operations on a full year basis.

Then your other part of the question was what is the logic of keeping INR3,000 crores of gross debt when we have a cash of INR3,165 crores. Just to remind you that out of INR3,165 crores of cash, the free cash which is available is only INR450 crores. Rest of the cash is not been realized for accounts, right? So therefore, we'll have to really live with this gross debt till the time we are able to generate free cash. And we are confident that as we are able to mature our product -- projects, and we are able to give OC, right, we'll be able to generate free cash and that will be utilized to repay the debt.

Sriram Khattar: So Saurabh, on your question of space available in non-SEZ, it's with the complete modesty that we have sort of done well in the last few quarters in terms of leasing. In fact, in downtown in Chennai, where there was about 250,000 square feet of space that was left, that was also committed yesterday, and therefore, Downtown Chennai is also fully leased. So the space that we have available now is about 3%, 3.5%, which is about 6 lakh-7 lakh square feet of space. In addition to that, we have some of the hard options, which the tenants may not want to take up, which keep coming up, which will get released. And my sense is they will get released at rates which are current market rates and higher than the rates at which the hard options were.

Three, as we -- our program is to complete Downtown 4 in Gurgaon by the end of '24 -- calendar '24. And in the first quarter of '25, the Atrium Place, which is our joint venture for about 3 million with Hines in which DLF has 2/3 stake, will start getting completed. So now the leasing and operations teams are working on marketing Atrium Place, and they have a head start of more than a year before the first building comes up to lease.

In addition, this has also enthused us and we have marginally accelerated the start of construction of Phase 2 in Taramani, which we should start in the Q4 of this financial year. And we are also starting the construction in the next few weeks on the Phase 2 of Downtown in Gurgaon, which is a multiuse development of about 8 million square feet, 8, 8.5 million square feet, with a 2.7 million square feet of mall, a destination mall and about 5, 5.5 million square feet of office towers.

Saurabh Kumar: Thank you**,** Sir, just 1 follow-up back to the residential side. So I mean how concerned are you about the sharp price rise you're seeing in Gurgaon? Is there a concern that prices go up too much and then that basically impacts affordability or that's not a concern for you right now?

Aakash Ohri: So, Saurabh, price is going up, so there is a latent demand. As far as concern is concerned, you're right now referring to the real estate thing for resi but tell me where the prices are not going up, whether it's eating out in our hotel or an air ticket or even a holiday. So I don't think -- see, right now, what is going up -- the only thing is that there is a demand for better products and good products.

So prices that are going up, if you see this carefully, is going up for products, which are in a certain genre, so luxury and above. So if the post-COVID what has happened is that the demand and the spends have kind of changed to a certain habit that people have got into in terms of they realize their life is finite and all that, so therefore, live it up.

So the demand for better, bigger homes is there today. Again, I'm not going to get caught into this luxury definition and all that, everybody kind of misuse it. But I'm saying better, bigger, more spacious homes is what the demand is today, and therefore, the price is a resultant of that, Saurabh.

So it is not something which is just something in the air that you're talking about a smaller apartment with certain price points. With inflation, with price points going up everywhere, this is where it is today. And buying a residential real estate today has become -- I've repeated this, and I'm going to repeat it again, has become a priority for people to kind of -- it is the number one priority today for most of the people.

So thankfully, a lot of people who are in the -- on the fringe and all that and would always live on rentals and do other stuff have also jumped into the freight. And I'm talking about the younger crowd, which is very heartening to see that the 30 to 40 bracket is today making real estate purchases.

But the good part is that they are -- everybody is wanting to fund and take bigger homes. So therefore, the rise in price points today are a reflection of a certain mindset, which is changing on ground, Saurabh. So it is not about speculators, is not about what used to happen 10 years back. These are people who want to buy homes for themselves.

And if you see the rentals, if you see rentals are a good parameter for what is happening today. And also, if you see the habitation charts, there is -- there are various reports in Gurgaon, which will tell you that most of the condominiums are now over 90%, 95% inhabited.

So I think these are -- this is what you should see. So at this point in time, I wouldn't be concerned about that. But let's see how it goes. And obviously, things will settle down even further as we go along. But if you were saying that it's -- all I can say is that there are enough people out there right now who're wanting to better their experiences. And I'm looking at those people. They're not only just first time -- not only people who are habitual real estate investors, but also a lot of first-timers, which is very heartening to see, Saurabh.

Moderator: Thank you. Our next question is from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal: Sure, Thank you. Two questions from my side. There would be about INR19,000 crores worth of launches in the next 6 months. And after which you're largely left to the pipeline of about INR23,000 -INR24,000 crores and it seems like about 1 year's worth of launches of the new base -- is there a thought process already to start planning for the next phase of launches, which should come by for FY '26 onwards? So that's question number one.

The second one is on the office side. Your IT services tenants have actually been very stable. It's something that we've not seen from the peers set. So is there any indication that you have from them that there is no intention to vacate any existing space?

Aakash Ohri: So the first question is, see, we plan for almost 3 years ahead. And based on which geography we are getting into and what we are doing. So that, as an exercise, we continue to do internally. So yes, visibility may be shown for maybe a year or 1.5 years, but we plan 3 years in advance of what we are intending to do. So have been able to answer that question.

Ashok Kumar Tyagi: So, Kunal, I mean while we have -- we have sort of documented the pipeline or the year after. It's not that our planning process is sort of shutting down. So we will have a -- I mean, we have enough land bank, and we will have a constant stream of pipeline flowing out.

Sriram Khattar: Kunal, on your question of indication from IT services companies of any vacancy, that has sort of ebbed. And I dare say the impact of COVID is now behind us. This has been helped by 2 or 3 -- for 2 or 3 reasons. Reason one is that during COVID, the space take up was for to a lot of exits, and therefore, -- but at the same time, the hiring was very good, and therefore, that is now coming back in terms of tenants, either not leaving spaces or asking for additional spaces.

Two, what has happened is that some of the larger IT companies are no longer looking at 80 square feet per desk, etcetera, which had become the norm pre-COVID, and would like to have more network collaborative open spaces, and therefore, the demand has gone up to 100 and -- the size they look at is about 120 to 130 square feet per desk.

However, having said that, I may add a word of caution here that the companies are still working on their individual hybrid models. And that is something which has not yet stabilized. One thing is sure that it's going to be hybrid, but what form or shape the hybrid takes is still being worked out by companies.

And there are companies who want to hot desk for hybrid. There are others who want to get individual desks for hybrid. There are others who say, even if it is hybrid, they have to cater peak performance, number one, number two, while attendance in our IT parts has improved dramatically, the larger IT services companies till now have been able to manage the increased manpower in the existing spaces.

And last about a quarter or so, we are seeing the green shoots when they have now started planning for the next year and 2 years and started looking for space. So if this come back to office starts working in a positive way, and India is far ahead of the west on that, then I see that the demand from IT services will go up. The issue of vacancy, then we will be in a much more subdued.

Kunal Tayal: Pretty encouraging, Thank you so much.

Moderator: Thank you. Our next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Thank you so much, Congratulations on good numbers. My first question is on the DevCo's commercial portfolio, the DLF 5 and City Center. The GAVs there seem to have fallen on a quarter-on-quarter basis. Can you comment what's happened there?

Vivek Anand: GAVs have fallen.

Ashok Kumar Tyagi: So honestly, the GAVs keep on getting adjusted basis, the rentals. So this time to be fair, on some of those assets, we have done a very thorough analysis of the of the rentals that have been -- that are not they're just today, but their rentals that those buildings have been earning for the last 6 or 7 years. And I think that is the reason why the GAVs may have been slightly adjusted. As you know, -- these numbers have no bearing on the balance sheet or -- on the balance sheet or P&L.

Puneet Gulati: Sir, I know I understand, 20% fall, which is what bothered. So just wondering...

Ashok Kumar Tyagi: So maybe part of the devil is that the earlier number may have been slightly optimistic. This is the best that I can say. Because this year -- we've done a very scientific thing of what the rentals are taken a full 9-year cash flow discounted it like a private equity and then come with these numbers. But again, tomorrow if we to go out to sell it, I'm sure you could get INR50 crores less than this or INR100 crores more than this, that will be a bilateral coordinate -- bilateral negotiation. It should not that we are in the market for selling any of these.

Puneet Gulati: Got it. And second, DCCDL used to give dividend typically in Q2. This time, there was a dividend but very small. Any thought process behind that?

Ashok Kumar Tyagi: No, Puneet, I think if you go through the cash flow of DCCDL in the last 1 year, DCCDL gave a hefty dividend in the end of Q4, which really was a substitute for the final dividend. So hence, the final dividend was a very small one. DCCDL has again given its half year dividend, but that obviously has come at the end of September, so that's coming early October when the DCCDL did their second quarter results meeting. So DCCDL continues to be in the cycle to give 2 dividends a year, which is what we have been tuned to for the last couple of years.

Puneet Gulati: Okay. So the cash would come -- would have come in October until September...

Ashok Kumar Tyagi: Because as you would appreciate that once the first half results are declared, then the company declared in time dividend for the last 6 months.

Puneet Gulati: I understand, thank you so much. And secondly, on the cash tax liability for the DevCo, that seems to be quite low. How long do you think will that advantage persist?

Ashok Kumar Tyagi: Cash tax liability?

Puneet Gulati: Yes. The cash tax, the cash flow statement.

Ashok Kumar Tyagi: Part of this, Puneet, is linked to the massive change in accounting policy that happened when the new Ind AS accounting standards got notified growing that sense. So part of this is linked to that. I mean, we do believe that in our tax returns, we don't foresee a significant tax liability for the next couple of years. But these are things which are constantly litigating it between us and the department, which is par for the course. But we don't foresee a significant amount of cash outflow. At least for the next couple of years. Am i right?

Vivek Anand: Yes, yes, absolutely.

Puneet Gulati: Understood. That it -- and lastly, the collection run rate has gone up to almost INR2,200-INR2,300 crores. Is that a sustainable run rate? Or was there some completion additional collection that came through?

Vivek Anand: So Puneet, if you remember, the guidance I had given on collections was a growth of almost 13% to 15%. And that maintain absolute numbers of close to INR6,400 - INR6,500 crores. So yes, corrections have been good in first half, and I see a potential upside coming in collections and the same upside I expect will flow in the OCF as well, which I clarified in the earlier part to Saurabh.

Puneet Gulati: Understood. And then you lastly guided that construction cost would go up by roughly 50% over the previous year. That should be...

Vivek Anand: Yes, INR1,200 crores of last year going close to INR1,700 crores. So that will be almost a 40% increase. A large part of it, you will see it in the second half.

Puneet Gulati: Understood, Thank you so much.

Moderator: Thank you, Our next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Sir, just on the Phase 5 side, you talked about pricing. We are getting closer to INR100,000 per square feet. When I just look at your Slide 10, like when -- where we are talking about 5 million square feet of luxury valued at about INR12,400 crores, I mean that's like 25,000 square feet. So does this number see a significant upward revision? Because I believe the bulk of this would be Phase 5.

Aakash Ohri: So what you are seeing is for a ready-to-move-in or ready apartments. And as far as valuation is concerned, definitely, you will see there is a tremendous upside there already. And as far as this is concerned, if you go back to what it was earlier on certain price points at launch, they were -- if I just go back 7 years, there was an ex-price. And today, that price is about 4x that value.

So I wouldn't want to speculate on future values. But all I can say is there is a reasonably good upside to what you have just mentioned. Right now, as what Mr. Tyagi was saying, that -- when we come closer to launch, that's when we made our pricing, and we true up the whole thing. But at this point in time, this is just a guidance given. But as I said, you will obviously put together also. But there is a good reasonably positive outlook there.

But again, we are not in the numbers game there in terms of this is going to be a staggered kind of a launch as super luxury deserves. And there will be price points at various intervals that will go up based on how much stock we bring in at that point in time. And that's how we -- that's how we'll be approaching the DLF 5 story.

Vivek Anand: And just to add to what Aakash said, Kunal. See, when we had given this guidance, we had given this guidance towards the end of last fiscal year. And a lot has changed in the last 6 months, and therefore, keeping it short, yes, these numbers will undergo a change, and there is a potential upside to this number.

Ashok Kumar Tyagi: Yes. So again, Kunal, what Vivek and Aakash said, absolutely. These numbers will undergo change as the product and the pricing gets screwed up close to the launch. I mean we had the objective we had an internal debate of whether we should change these numbers now or as it was launched. Honestly, I mean, you know us as a company. We are conservative people.

We don't -- I mean, we are not in the business of trying to milk every guidance upside from a market standpoint. And so we are okay with this. But obviously, these numbers will undergo a positive change as we hit closer to launch.

Kunal Lakhan: Got it. Got it. And secondly, can you just comment a little bit on the new launches status in terms of like where we are in terms of approvals and time lines, for example, for Sector 76 and also for Phase 5?

Aakash Ohri: So in 77, that's Privana, the approval process is on, and this is a Q3 end launch and so far so good. And the other one you mentioned was the DLF 5 one, right? So that is also on track for Q4, but that was, as we had said, Q4, Q1. So that is also on track. So far, based on what we are doing internally, our approval processes are on track. And also for the Valley Orchard in Panchkula, the SCO in Gurgaon. So all the approval process and the -- right now, we are meeting those time lines as we speak.

Kunal Lakhan: So Panchkula will be in Q3 just confirming, right? Panchkula in Q3?

Aakash Ohri: Yes, that's right.

Kunal Lakhan: And DLF 5 will be in Q4?

Aakash Ohri: Yes. Q4, Q1, yes.

Kunal Lakhan: Okay. Q1, there's a possibility it slipping in Q1?

Aakash Ohri: Not slipping. It's part of the thing because this is -- as you know, it's a big, very big project, and it's coming after Camellias was 2014. This is 20s almost a decade. So these products require that kind of an intention. So 1 month here or there won't really matter, but I'm just saying you should know where we are as far as the planning is concerned. But so far, it's on track. It's just that we just -- we'll take the call closer to Q4 or maybe in the beginning of Q4, we'll know exactly, say -- by January, we'll know without to take.

Ashok Kumar Tyagi: And either way, Kunal, our sales guidance of 13,000 plus is under no threat, frankly, even if one of these projects tend to slip by a few weeks here and there.

Kunal Lakhan: Sure. Understood. And my last question is on, again, like I think on the utilization of free cash flows, like we are clocking almost like INR1,100- INR1,200 crores a quarter now. And with debt behind us now, how should we look at it incrementally going ahead because we'll end up piling a lot of cash in coming quarters and years?

Vivek Anand: So I think as, Kunal, I had said earlier, the -- it's very clear. I think the first priority is to really generate as much as free cash as possible. And while we have INR3,100 plus crores of cash, the free cash available is INR450 crores. So the first priority is to make sure that we complete the projects, get the NOCs and convert that into free cash. So once we have free cash, yes, one of the things we could possibly do is to really repay some of the debt. Second is to really put the cash behind growth, right? And third is to continue to reward the shareholders. I think that's consistently what we are following.

Kunal Lakhan Sure, Thank you so much.

Moderator: Our next question is a text question from the line of Parikshit Kandpal from HDFC Securities. Can you update us on the status of the Tulsiwadi and Andheri project?

Ashok Kumar Tyagi: Okay. So the Andheri project is on track, as we had mentioned last time. We -- in the slum rehab is making very good progress. I think of the first phase of 30-odd stores somebody have 27-28 stores are already ready. And we stay on track for a potential launch around, I'd say, definitely before June of '24. So that does look to be on track. And the first phase should be about 1 million square feet of launch, give or take. Tulsiwadi has been in a significant legal mess and it's just gone further deeper in that.

We had made a bid for acquiring 100% of the shareholding of the company to the then lender, PNBHFL, who did not -- who was unable to give us a position of 100% of the shares. Then they did a -- they sort of sold off the loan to an ARC, which sold off the stake to an entity. We went to -- we and Shapoorji Pallonji both went to court against the completely non transparent method that the process was done.

The Delhi High Court has made some scathing observations and has put all the shares in suspended animation. And I think both us and SPC are exploring the complete legal options on both counts; a, to restore the shareholding of the company back to where it should have been; and b, to ensure that our outstanding debt from that company to us is not jeopardized.

So I think we are an extremely strong solid -- I mean, legal ground. Delhi High Court has, by and large, in their interim conclusion supported our stand. And now I think we just a question of sort of taking that legal issue through all its right, I mean, course.

I think we just landed up in some sense in an unfortunate situation of what could have been a great project. But we do hope that we'll eventually be able to come out without a financial loss, maybe with the shareholding also restored. And we are in the midst of that legal battle. Andheri project is on track.

Moderator: Thank you. Our next question is from the line of Pritesh Sheth from Motilal Oswal. Please go ahead.

Pritesh Sheth: First is to Mr. Khattar. So I think very good leasing quarter across the operations and the under construction portfolio. Just wanted to get a sense of that leasing, 3 lakh square feet each leased out in both SEZ, non-SEZ space. Where is the demand exactly coming from? Is it the existing tenants expanding? Or are we also seeing some new tenants, specifically in SEZ spaces as well?

Sriram Khattar: So I will start with the non-SEZ spaces. The demand is coming from new tenants and existing tenants. And as I have mentioned earlier in the earlier analyst calls also the majority of the demand continues to be from the so-called global capability centers, which find India a very compelling location to look at because of its strong digital backbone, high-quality, global quality, infrastructure and office spaces at a fraction of a cost, and very high-quality, young English-speaking skilled manpower.

These -- they are expanding in the country, and I personally believe that in the next 4, 5 years, they will be a major contributor to the growth of the offices market. And then in Downtown Gurgaon, we have been able to establish a rental of INR150. And in downtown Chennai, we've been able to establish a rental of INR100.

In the SEZ space, fortunately, we are slightly better off than what the competition is. We have a vacancy of about 14%-15 odd percent. We believe and we are given to understand that the ministry of commerce is in the final stages of allowing floor-wide de-notification. And once that comes, we will -- we believe that the demand for our quality spaces even in SEZs will go up. And over the next 4-5 quarters, we'll see a fair amount of traction there also.

So to add to this, what Saurabh asked in the beginning as to where the stock is, we believe that floor-wise de-notification will also give us about 800,000 to 1 million of stock in the next year or so.

Pritesh Sheth: Sure. And just -- just a follow up on that, SEZ space is also seeing demand from new tenants or just existing tenants expanding?

Sriram Khattar: It's a combination of both. It is existing tenants expanding, say, about 60%, 70%, and 30%, 40% new tenants coming.

Pritesh Sheth: Got it. Okay. And just 1 question on Camellias again, whether the inventory that is there right now in our slide, it's repriced to 1 lakh square feet, or -- what's the pricing assumption there? Because I'm seeing -- like if I add up the sales that we have done this quarter, plus the inventory that is their balance, there's a 20% jump in the inventory value. So what's the pricing assumption now in Camellias?

Aakash Ohri: So pricing is, as I mentioned earlier also, it's the lower, middle and higher floors. Higher floors go upwards of the number that you're talking about. The lower floors are basically based on that. There's a preference location thing, which is a 20% difference between the 3 segments that I just mentioned. So that's where the valuations will be. Some of the inventory that is left, some of them are on a higher floor, some mid- and some growth. So based on that is what the valuation is going to be. So if that's -- if I've been able to answer that for you.

Pritesh Sheth: Yes. So the range would be -- Sorry, you can go ahead.

Vivek Anand: I think you -- so what we've done is that the current value of inventory is based on the average price realization of quarter 2, right? So -- and what Aakash is saying that the current price is certainly more than that. So answering your question, right, there will be a potential upside there in pricing.

Moderator: Thank you. Our next question is from the line of Abhinav Sinha from Jefferies. Please go ahead.

Abhinav Sinha: A couple of questions. Firstly, on Privana. So is there a rethink on the product that we have there versus the mid-rise that we were envisaging?

Aakash Ohri: No. So product, not we think in that way, but there was -- already, there were a couple of towers of high-rise in Privana. So it was -- that's just been some more towers basically have been added as high rise to the mid-rise scheme. That's all. So this -- in the plan, there was already highrise is a mix of that with some mid-rise.

But right now, there is -- I think it's just -- we've added more highlights to the scheme. So as we kind of -- we feel that the demand there is more. And then, of course, the way it's coming out, again, it's -- if I can call it an Arbour 2 because it's just -- it's the same kind of spec and payouts and all that.

And the approach infra closest to the biggest green land in Haryana. So for a home, it's -- it can't be more perfect. So that's what it is right now. And it's just gotten -- I mean, to answer that, it's just -- now the product is enhanced even more, and therefore, that's what it is.

Abhinav Sinha: Right. So we look for similar sell-throughs and does it also lead to better, let's say, FSI utilization there? Or that's not the idea here?

Ashok Kumar Tyagi: So, Abhinav, I mean what we are launching there right now is barely covering a 1/4 of the total size that we have there. So we have an enormous degree of flexibility in terms of the -- of how to use the maximum FSI available on that site. So I think what the product changes that Aakash alluding to have been more driven by; a, the success of Arbour; and b, by what I think the customers today looking forward is just -- it's not a stand-alone site where if you don't build now, you lose the FSI for life because this is a part of a far bigger land parcel. But yes, I mean, to Aakash's point, Currently, what we are looking at is a product, frankly, far closer to Arbour than the old colony sector...

Aakash Ohri: So adding to Mr. Tyagi's point, because just for you to put it in perspective, you can -- I mean, only a colloquial way of saying it, it can be called DLF 6, but there's so much to do there. There is so much to do there because it's a good parcel, and we'll kind of build it from scratch.

Abhinav Sinha: Okay. secondly, and congratulations to Mr. Khattar on the strong performance we have seen. So Tyagi sir, my question is, does this bring us closer to the REIT offering now considering we are here. And the SEZ, you are also very positive on the Ministry of Commerce giving a favourable...

Ashok Kumar Tyagi: First, what will bring us closer to a REIT is the performance of the other REITs and not performance on Khattar. And those done doing significantly better. But to be fair, as I think we have said umpteen times in the past, we are now ready from a structuring standpoint to almost press the button within a 180-day period of whenever the 2 shareholders decide.

I think it was, in some sense, in a pause mode for a variety of reasons, including COVID and the aftermath of COVID, the vacancy overhang that it left the bits and pieces and the entire interest rate scenario. I think there's still possibly a few quarters away from the interest rate scenario turning benign, which actually is the right time for a product like that.

But clearly, I mean, our monetization at some stage, I'm sure will happen. It's just a question that -- I mean that both the shareholders, while they are aware and cognizant of that, I don't think there right now, if I may use the word in a tearing hurry to do that. But at some stage, I'm sure that there will be an interesting amortizing option that will be executed.

Abhinav Sinha: Thank you and all the best to the team.

Moderator: Thank you. Our next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: So just had a few more. So 1 is your staff cost is down quarter-on-quarter. What explains that? I mean given the performance of the company. So that's first.

The second is with Dwarka Expressway, we are now finally completing, sir. Is there are like a lot of investor inventory, whatever gets unlocked and that kind of comes to the market? And how does it interact with your New Gurgaon supply, if you have any thoughts about what archive Dwarka Express completion in Gurgaon? So that's the second one.

And thirdly, Tyagi sir, you have kind of your sales guidance has gone from INR12,000 to INR13,000 and this call INR13,000 crore plus. Would you want to kind of give a range as to where you see the number or should it be better because every quarter now you...

Ashok Kumar Tyagi: I will answer your last question first before I defer to Vivek and Aakash on the balance piece so make in our card for the balance piece. We have always maintained a guidance of INR12,000 crores - INR13,000 crores, and even in our last call, I had mentioned specifically that there is an upside risk to this number, which is which is what -- I mean I believe that now maybe the upside risk is slightly stronger. So hence, I added the plus INR13,000 crores. But you won't not just into giving a sharper number than that.

Vivek Anand: Staff cost,Saurabh. Our staff cost for the full year is expected to be somewhere close to INR560 crores to INR570 crores. So I think you are referring to quarter 1 and quarter 2 staff costs, where quarter 2 staff cost has dipped, right? Is that... I think that's more to do with phasing of spend. I think quarter 1 has a larger provision for sales incentive, right, which is the sales incentive normally be booked with a lag of 1 quarter.

So quarter 1 had impact coming from quarter 4 sales, which was the highest quarter in the last financial year. And quarter 2 has sales incentive booked for INR2,000 crores of sales, which happened in quarter 1. I think that's the only reason why there is a difference. But on a full year basis, you can take INR560 crores, INR570 crores kind of a number.

Saurabh Kumar: And should your gross margins be higher because Camellias was booked into revenues like when a the gross margins being higher than the 57% we are reporting?

Vivek Anand: No. So you're talking about second half? I didn't get your question.

Saurabh Kumar: No, no. So this quarter, we would have booked these Camellias sales, right, into revenues, it's 14-odd apartments that's at a higher price. So the gross margins on those sales will be like north of 70%, I'm guessing. So, your gross margin, which you are reporting is 55, sorry, 57?

Vivek Anand: So Saurabh, what we -- what I've sold today is at a higher price and therefore, at a higher margin. So that margin will get recognized when we'll issue the possession letters, which will happen sometime away. Now this 57% margin is for the positions I have given during the quarter and something which was sold a year or 2 years back.

Saurabh Kumar: Got it. and lastly on Dwarka Express way.

Aakash Ohri: With reference to Dwarka Express way as you know, Saurabh, for over 5 years or whatever inventory that was there, that has been still hanging around there. And that is more of an investor market than anything else. So it kind of sometimes worries me next visit also. Because it's more of -- I don't know who's finishing off what payments there, but everybody is near to make that initial transaction.

And post that, what's happening is, whether it's habitation or where it's anything else, that I feel right now is contributing to what the other developments are seeing and especially in terms of moments and all. So I don't -- I mean, at this point in time, too early to comment. But whether it's conflicting or not each markets are different. We are completely, as you know, sold out in ROG. I will only know post that. But each one of our projects kind of work on a different parameter and requirement. And basically, as far as DLF is concerned, it is an end user's product.

So speculators and that particular thing I feel at this point in time, I don't think we've gone after that for a long time. At least in my tenure, I can say that very clearly to you. So I think there are two very different markets here, Saurabh.

Saurabh Kumar: Okay. And just on your Phase 5, Aakash, so your Camellias has gone to nearly 1 lakh and now you're launching this mini Camellias, if I can call it, in Q4 or Q1. So now is it like Phase 5 breaks the pack from Gurgaon and now trades in line with Central Delhi, South Delhi types? Or is that something you think is structurally now that the rate convergence between Phase 5 and South Delhi has finally happened or...

Aakash Ohri: Yes, yes. DLF 5 now you should be worried to compare it with Bombay what you're saying central Delhi. So different about time, the kind of work that we've done and it's got accolades. And I say it with pride as in Indian, I mean first DLF and then, of course, kind of product that is being done and the ecosystem that is being kind of created. It is, today, when people -- when foreigners come or people from outside NRIs and all, the first thing is like the Beverly of India, Beverly Hills of India.

So yes, the DLF 5 would see that because also had of a lot of infrastructure, as you've seen, the social fabric is very strong. The kind of community that lives in the DLF 5 I can simply say half of India's GDP is kind of contributor from the kind of people who are who are part of the community there. And the good part is people love staying there. So as far as that is concerned, Saurabh, I see a lot of -- going forward also, it's become the choice.

I mean, today, if I can share this data also quickly with you. Any expat who's coming into the country, and you know when they come in their 6 months before that, their first choice when they come for these reiki visits is to see where they're going to live. And whilst Delhi is an option, Vasant Vihar and other colonies, DLF 5, DLF Golf Link is the most preferred choice. And this I think will pick up from any data, any relocated companies and all.

So today, I see that going up. And with the entire cost that is being great and especially the social infrastructure, I think it is now becoming the go-to place for by choice to live there. So once -- first, it was something that we were pushing. Now it is more of a full product.

So I think again, with the demand and supply syndrome, what's going to happen is that you will see this definitely going up, as you see, Mangolia today is trading at about almost INR60,000 -- INR55,000 to INR60,000 a square foot, that's about INR35 crores to INR38 crores and where it was earlier.

So these were all very latent demand. Nothing -- I don't see this as a volatile the kind of thing. I'm seeing this as people who are -- have very few options of communities like this, it's like an into a central part where you have 500 acres of a green lung right in front of you, and then, of course, the security system and everything else.

So I think that's where the demand will be. And second, you've been holding it for 5 years on launch pipelines and all. What Mr. Tyagi must told you must be music to all of your years, hopefully, that now DLF pipelines are ready and things are happening. So I think that's something that we are concentrating on.

And Vivek said, margins are something which is extremely dear to us. Our projects will be launched only subject to what conditions are. And margins will prevail over any gross numbers that we have want to post. So that's where we are Saurabh. We are getting here.

Saurabh Kumar: Thank you, Happy Diwali.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I now hand the conference over to Mr. Ashok Tyagi for closing comments.

Ashok Kumar Tyagi: Thank you. There's not much that I can say after that Aakash's rousing speech. But honestly, I think this hitting at zero debt was a very important sort of. It's almost an emotional target for many of us over the last 8- 9 years, as you know, and we've taken a lot of steps in the last few years on this. So it's great that we finally hit there. I think this -- I mean, the future does foretell -- I mean feel of strong cash flows and strong launches, hopefully.

The RentCo, I mean, is doing an exceptional, exceptional job in terms of its leasing pipeline, it's built out of new capex, it's certification in all of these ESG and LEED certifications. So I think all in all, I think we are in, hopefully, a good place, and I just hope that the markets continue to be to be positive. And hopefully, you look forward to the next quarterly interaction. Thank you.

Moderator: Thank you. On behalf of DLF Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.