“DLF Limited's Q1 FY'23 Earnings Conference Call Transcript”

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Moderator: Ladies and gentlemen, good day and welcome to DLF Limited Q1 FY'23 Earnings Conference Call. We have with us today on the call, Mr. Ashok Tyagi, CEO and Whole-time Director; Mr. Vivek Anand, Group CFO; Mr. Aakash Ohri, Chief Business Officer, and Group Executive Director; Mr. Sriram Khattar, Managing Director, Rental business. 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 '*' then '0' on your touchtone 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, Mr. Anand.

Vivek Anand: Thank you, and good morning to all of you and welcome to DLF Limited Q1 Financial Year '23 Earnings Webcast. Thank you once again for joining us today. Hope you and your family are keeping well and safe.

Our business continues to deliver consistent performance across all parameters. I will start with the financial highlights for Q1 Financial Year '23 which is for DLF Limited consolidated results. Consolidated revenue stood at Rs.1,516 crores, reflecting a year-on-year increase of 22%. Gross margins continue to operate in the 50%-plus range. Q1 margin stood at 53%. EBITDA stood at Rs.488 crores. There is a drop in this quarter as the business is in scaling up phase and investing for growth. The increase in staff cost is driven by organization scale up and other expenses driven by business scale up cost of marketing and brokerage. We follow a policy of fully charging off sales and construction overheads, for which the corresponding revenue will be recognized in future.

Net profit at Rs.470 crores, reflecting year-on-year increase of 39%. This was largely driven by significant reduction in the finance cost, along with growth in the JV profits.

Residential demand continues to exhibit sustained momentum. The high demand for luxury homes has been a key trend, that is expected to continue. Our residential business continues its steady performance and clocked new sales booking of Rs.2,040 crores, reflecting a year-on-year growth of 101%.

The Camellias,, our super luxury offerings continue to remain the preferred destination across the super luxury segment and delivered a healthy sales booking of Rs.350 crores during the quarter.

Our new product offerings continue to evince strong interest from the market and made a healthy contribution of Rs.1,532 crores during the quarter. The contribution of new products in the total sales was approximately 75%. While rising interest rates may pose some challenges, we expect the structural recovery in the residential segment to continue. We continue to bring newer offerings across multiple segments and geographies.

We continue to remain committed towards surplus cash generation from our operations, continues to be a focus area. We generated surplus cash of Rs.421 crores during the quarter, which led to further deleveraging and consequently, our net debt at the end of the quarter stood at Rs.2,259 crores, one of the lowest levels.

I will now move to the financial highlights for Q1 Financial Year '23 DLF Cyber City Developers Limited consolidated results. We witnessed steady performance across our office portfolio. Retail business continued its growth path and delivered a healthy growth. Rental income grew 20% year-on-year, driven by a strong growth in retail revenue. Consolidated revenue of Rs.1,260 crores as compared to Rs.1,041 crores last year, reflecting a 21% year-on-year growth. EBITDA at Rs.961 crores, year-on-year growth of 18% and net profit at Rs.323 crores, reflecting a year-on-year growth of 60%.

Occupiers attendance continues to exhibit steady improvement, indicating return to normalcy in the office segment. Our Chennai asset is witnessing approximately 80% attendance compared to pre-COVID levels and Cyber City Gurugram is seeing 50% attendance. We are witnessing month-on-month improvement in these trends. With sustained collections and steady improvement in occupancy, the Office segment is well poised for growth.

We continue to deploy capital for creating safe, sustainable, and quality workspaces. Development of our new destinations across multiple geographies remain on track.

Retail business continues to exhibit steady growth with improvement in consumption trends. Organized retail is expected to get further share with strong preference for quality assets at established locations. Given these tailwinds, we remain committed to grow our portfolio across multiple geographies and hope to double our retail presence in the next few years.

Our strong balance sheet, healthy cash flow generation, coupled with a diversified pipeline of quality offerings provide us a unique opportunity to leverage this upcycle. We remain committed and confident in delivering our business goals. Thank you very much. We now open the floor for Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, I had a few questions. One is effectively on this gross margin. So, your gross margins at 50%-plus are the best in the industry, but when we compare you on EBITDA, the number is you are lower than the industry and I know that you have increased your staff and other expenses. But is there like a target level of margins you want to run at, I mean, should we expect a 35%, 38% ballpark EBITDA at DLF or how should we think about the EBITDA level? The second for Akash is so we have seen price increases in The Crest, feedback is that price has gone to 25,000 to 30,000 in the market. So is there any early feedback you have for your golf course extension project, because Gurgaon finally seems to be going up in prices, when do you expect to launch it and any indication on that, that plus Reis Magos? And the third is on this Rs.900 crores of CAPEX in the parent business, the rental for this will be about what, 200-odd crores and which specific projects are these?

Vivek Anand: I'll take the first question. Thank you, Saurabh for your question. So, let me take the question on the EBITDA. So, first of all, as I outline that we are in a business scaling up phase, and we are investing for growth, right. So as you know that there will always be a delta between the time you scale up and the time you actually recognize the revenue. Having said that, if you really look at current quarter margin, we are holding on to our margins at upwards of 50%, to be precise this quarter our margin delivery was 53%. We are also committed to really bringing in new products which will continue to enhance our margins. So I will just give you an example that the DLF City Floors what we really launched in the last 18-months, there is Rs.3,000 crores of City Floors what we've launched, they're all adding up to a margin of 55%-plus. Overall, the new product portfolio what we've added in the last 18 months are committed to really enhance our margins as we go forward. Yes, EBITDA last year if you really look at, our EBITDA margin was 35%, yes, there has been a slight drop, but I will say that you should not be really looking at our P&L on a quarter-on-quarter basis. I think directionally if you really look at, we are investing for growth. So yes, there is a time lag. But I think if you really look at long-term, I think the product offerings, what we are really bringing in, they are all margin-accretive, and with time when they start recognizing the revenue, you will see that the EBITDA levels will start inching upwards of 35%.

Ashok Tyagi: So basically, sort of just to elaborate on what Vivek said, really a 35% is definitely on the horizon. I don't think that's a challenge. It's an issue that basically right now, because if you look at our absolute margin is Rs.750-odd crores which on the current run rate will be a number closer to 1,000 on a go-forward basis. So I think once this lag between the revenue and costs corrects, I think, as Vivek mentioned, I think a 35%-plus margin should definitely be doable yet again.

Aakash Ohri: You mentioned about price points, you are right in where they are today. But that's also a function of lot of other things that go behind. So not every property there if you've noticed also in Gurgaon is today demanding that kind of a price point, but also there's a lot of work that goes behind it and therefore, we are committed to continue to make sure that post-sales, our service levels, and deliveries are at par with what we had committed. So that is also a function of making sure that the price points are stable and sustainable. So these are all second and third transactions in the market. So I'm glad you mentioned it. As far as launches are concerned, yes, we are working on as we had also presented earlier. So all the products that you mentioned are being worked on and yes, there is a visibility of launches this year and we're looking forward to it in Q3 and Q4. we are gearing up. Just to let you all know that, today, we are happy to mention that most of the international designers in the world today are aware of DLF, are aware of what products and the quality of products that we kind of churn out and are spending their time and pitching for our products and this is across the board I am talking about. So, we work with most of them, we are hiding a lot of them. So, that particular thing is also going on. And as far as Goa 63 and other floors that Vivek also touched upon, so for us right now, how we are looking at quarter-on-quarter is obviously the residual stock of super luxury, which is now minimal, but we want to continue to make sure that those price points are where they are, and we sell them, we continue to focus on our floors, which is by now, I can also tell you that it's been accepted and there was a major gap in the unorganized market, I think, which we've gone and plucked. So, the DLF floors, they are not accepted but are traded and then of course there are also new launches that you mentioned and of course Goa as well. So, we are on.

Sriram Khattar: Capex on the new products are split into two, one, which are in the books of the DCCDL platform, where we will continue to invest between 1,200 to 1,500 crores over the next three, four, five years. And this includes DLF Downtown, Gurgaon, DLF Downtown, Chennai, the Mall of India in Gurgaon, Vasant Kunj mall expansion, etc., In addition to that, there are a few projects both in offices and retail on the DLF platform, which include the IT Park in Noida, the new mall which in Goa, which we have now named as DLF Avenue Goa, the High Street Shopping Centers in Phase-V in Gurgaon and in the Midtown. This I think would entail an expenditure of about 400 to 500 crores a year.

Moderator: The next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: Hi, Aakash, a question for you. You've had a successful 18 months with the new product launches, etc., and in about a year and a half ago, you did carve out this 35 million square feet. Any chances I'm sure you must be working on it, but any communication you want to give on how you want to replenish that 35 million square feet given you've been one and a half year at it, replenish that launch pipeline, taking more from the land bank?

Aakash Ohri: Thanks. Good question. So with regard to launches, and how we have kind of mobilized markets, I'm glad you mentioned those 18-months, because we've been talking like this, but if you see how we have gone into every market, and quietly, like I'll make a small point of Chennai, we were there about a decade back, we got in, we worked against all odds outside the company, north Indian, whatever national yet and DLF prevailed, we got the maximum press, we got the maximum traction and I can't thank enough our investors. So, what happened there was that we have land banks as you all know across the. country Today, hopefully we are demonstrating to you and to the organization is that every square inch of our land bank is monetizable as and when we bring them in and to the levels that we can actually deliver are the price points, if you see Chennai, we did above almost 40% over what the actual markets there are, you look at Panchkula and Tri-City. I still remember three years back; it was completely written off. Today, our price points are again setting benchmarks in the market for others to follow. There is demand. Two major product launches are slated there. So basically what I'm saying is one step at a time. What we are carefully and unconsciously doing is that wherever we go, looking at those markets, looking at responses, if you look at Indore and Lucknow, we completely cleaned it up, Kochi, we've just got this one, quite a lot to go, but we've got another land bank. So everywhere where we are seeing buoyancy, we are seeing the DLF pulls, and I can't single out even one geography and say that look, that's not accepting us. Every geography has wholeheartedly kind of gone and endorsed us. So I think you will see. But I just want to be cautious here. All I'm saying is that we go by what the business plan that we have given you all. But today, I think there is confidence even within our systems that we will not only move at lightning speed, but also can deliver irrespective of whatever the conditions are, I think that is important to know. So yes, to replenish, we've got enough. So every zone like Chennai, we've done one, we are already talking about two more. So all that will now continue to happen. Panchkula, we did whatever residual about a year and a half back. All our launches, as you know are all new. So other than Gurgaon, I'm saying which is our hub, wherever we are going, we are making sure that first, we see the market, we do our conversations, and then we are on. So we will continue to replenish as we go along.

Ashok Tyagi: Just sort of reinforce what Aakash said. We are doing this across India, but make no mistake, our predominant area of focus remains NCR and Gurgaon and we already have lined up and we did communicate when we met all of you a few weeks back the launches that we have in the pipeline here. And I think you'll continue to see a series of new products coming in, not only in the next 18 months, but beyond that as well.

Moderator: The next question is from the line of Mohit Agarwal from IIFL. Please go ahead.

Mohit Agarwal: My first question is for Aakash. Just wanted to clarify, did you mention that You're looking at a Phase-V launch in the second half, can you just clarify that?

Aakash Ohri: DLF 5 launch is not in the second half. That is other projects further down. DLF 5, we are doing a very premium launch, which is called The Grove, which are the gold standard of floors, if I can call them. And I strongly recommend a lot of you, and everybody else to invest, because that's the last parcel of, let's say, plotted development ever that you will see in one of the most premium geographies of the country. So that is something that we will be launching in the next quarter for sure. But if you're referring to group housing, that's a little further away, but I think this is going to be a very price catch for whoever can get in.

Mohit Agarwal: How big will that be in terms of million square feet?

Aakash Ohri: Sale value I can tell you, that is going to be almost 1,700 to about 2,000-odd crores, that is something which is there. But it's going to be very exclusive –

Mohit Agarwal: What are the timelines for a Crest-II launch, what are your thoughts on that?

Aakash Ohri: Crest-II will happen soon as we go along. As Saurabh just mentioned, and thankfully, you all are now talking about these price points and I am not. So I think market has endorsed them. Overall, infrastructure also plays a huge role and then the community, I think, what I always believe that what makes places and companies are its people. So this community that DLF 5 has today created is very aspirational, very thing. So I think you will hear from us, but I don't see it happening in this financial year to be honest with you, because that's going to be a big kind of a mammoth job and it will require that much of detailing and preparation. So not this financial year but look forward to it.

Mohit Agarwal: We've done 2,000 crores of pre-sales this quarter. Now, first quarter, as is typically not the strongest for residential. A couple of months back in the analyst meet, you had given a guidance of about 8,000 crores. So how do you look at that, considering that we have a strong launch pipeline, do you want to revise that 8,000 crores number considering you've done 2,000 crores in the first quarter itself?

Aakash Ohri: We won't revise anything for now. We will continue to stay to our guidance. But as you rightly said, yes, just before the call, I was sharing this data with my colleagues over the last five years Q1 performance. So, yes, this definitely is very encouraging. But, again, we're not getting carried away with anything. There's also headwinds with everything else going in the future with interest rates and all that. So even, we'd like to keep the buoyancy on, but still, I think there's always this lurking fear. So we'll be always grounded about these things. I think we've got some launches going on, we've got certain things coming. So, Q2 I think we will focus on right now what we have and we will keep the guidance as is.

Mohit Agarwal: My last question is on your cash flow. So, the collections have been at about 1,000 crores whereas the pre-sales number has moved up from about last four quarters. So, when do we see the collections moving up to the next level? Also, the overheads have been elevated for the last two quarters in the cash flow. So is that the new normal on the overhead?

Vivek Anand: So your first question is on the collections. For this quarter to be precise is around Rs.1,000 crores and we expect as we scale up this collection number to really move up. So, I think in the last call, I had mentioned the last year, we made a total collection of Rs.4,400 crores and we are committed to really scaling up on that in line with the sales growth. So, I think that is something we are committed. So, answering your question, you will see the collections picking up starting this quarter. And on the fixed cost, yes, you are right, the numbers have really moved up in the last two quarters and that's what I explained, right, the way to really look at is that we are investing for growth and as we are scaling up our business, we need to really do that. And what is important to really see is that where are we really adding this cost. We are adding in supply organization, and we are adding it in sales organization, which is really helping us really grow the business, right. If you remember, last year, we had indicated that when we had given a sales guidance of Rs.4,000 crores, we had said that our fixed cost will be in the range of Rs.550 to Rs.575 crores. And now since we are really scaling up, we are almost doubling our business, we expect this to really move up close to Rs.675 crores on an annualized basis.

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

Pritesh Sheth: So firstly, again, on the collections specifically in Midtown, when do we expect the collections from Midtown ramping up because we are already Rs.2,500 crores of sales that we have done and still left with Rs.2,200 crores of collections, roughly 10% we have collected, what's the trajectory on that?

Aakash Ohri: See, all new projects that we have launched, whether it's Midtown or OMR, I won't say that these are new geographies for us, but new challenges. Also, we got back them almost after a decade in both these. So logistics on ground, a lot of things had changed. We had a stupendous kind of sale thing and everything else was a catch up. But then, as far as these things are concerned, just quickly I must digress and give you a thing. The adjacent properties are now almost abutting One Midtown of almost Rs.26,000 to 30,000 a square foot, phase-III capital green, which was hovering around almost 15,000 just about 15 months back, now this is what it is. So I see that ramping up now. We have certain logistic issues and all. Also, the scale of the business that came in kind of was pretty large. There were certain things that even agencies weren't formed, I'm talking about the external ones, when you collect those 10% today with RERA and all, you have those registries to be done. I'm talking about the external support systems that that kind of had to be ramped up in both these zones. I think that took time. So therefore, the call could only happen once all these things are lined up. Though we had budgeted for certain delays, but we hadn't budgeted for this kind of thing, because there were completely new agencies involved. So you will see that now ramping up and going on. And if you've seen even both these projects, they launched at a certain price and they're kind of trading at a certain price today. And they're both very healthy in terms of these transactions. But I think I don't want to speculate there, but right now, you will see that getting better quarter-after-quarter.

Vivek Anand: And just to add to what Aakash said, since this payment plan is linked to construction, and as the construction progresses, right, we are expecting a major milestone to be achieved in October. So coming specifically to your question, you will see collection ramp up starting Q3.

Pritesh Sheth: You made an interesting comment on slide #12, that is industry supply ramping up, the first point on slide #12, new supply picking up. So, can you elaborate on that, what sort of supply that is coming into market? And has that, is there any impact in our plans or our pricing strategy from hereon?

Aakash Ohri: So, overall industry, as I said in the previous question also, as an organization, I think we continue to be cautious about our approach we always have. So, there is demand. See, the only thing that we will continue to give our guidance on one thing are the margins. Even if there is a compromise on velocity, I think margins can't be compromised at all. So therefore, it's like a chicken and egg always. So, the industry products launches, if you see, our performance over the last six quarters, it has been evenly distributed with new launches, whether it is a Rs.1 crore product or whether it is a 30, 40 crores product. We have been continuously demonstrating our sales performance and collections across the board, across geographies, across product lines and price. So here, you will see new products but in the same line. And as far as DLF is concerned today, we can safely say to you that we have a product at almost everybody's price point because I think at that level of aspiration we will be able to meet. But what we have mentioned in the next three quarters to go, I think we will stick to that right now. There are no new products other than what we've already mentioned are going to come in, but that's enough, we got 2,000 crores. So also the other supply, I feel that markets have to be competitive. When you put things in perspective, only then your values are also seen and appreciated. So yes, there will be other supply coming in. And I hope they come in both in Delhi and elsewhere. I think what one thing I can definitely say is, let's say, Saurabh mentioned 63. As soon as we announced or even started work there and got our papers done, three projects already announced to launch. So obviously it's good, because then there are certain price points established, the demand we know, but yes, Delhi also you will see industry launches, but that only helps us grow. I think the markets are happily putting their money back into real estate, and which all of us want. So the larger that pool is the better it is. I'm also hearing more launches and also it's good, I mean, there's enough space in this country for real estate for everybody.

Pritesh Sheth: Last question for Mr. Khattar. So where are we at our plans on the retail expansion? I'm just pointing it out from the perspective of when do you think that it will get reflected in our slide #27 table about under construction portfolio for retail?

Sriram Khattar; Under construction, let me split it into two platforms. One is the DCCDL platform, one is the DLF platform. In the DCCDL platform, our plan for Mall of India Gurgaon with the International architects, which is CallisonRTKL are at a fairly advanced stage and I think in another three months, we should be able to more or less finalize the plans that three may go to four or five months, but please appreciate that this is going to be the "Largest Mall in the Country" and we are going to bring the best experience that one can have and therefore the planning is taking much more, then execution will be relatively faster. The expansion of the Vasant Kunj malls is also under an advanced stage of planning and we should closing over the next two quarters. On the DLF platform, the construction of what we earlier used to call, Patto Plaza, which is now DLF Avenue in Goa is moving full scale. And at the same time, the high street shopping center, which is Summit Plaza in DLF 5 is also moving. We expect both of them to be in the market by mid-to-latter part of calendar '24. And the high street shopping center near Midtown, we should start construction in the next two to three months.

Moderator: The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: So, on your 7.6 million square feet new launch plan for this year, how much has been done in Q1 and what would be the sort of rollout plan? And within that, if you can talk a bit more about 3.3 million square feet of luxury housing?

Vivek Anand: Good morning, Sameer. Let me take this. So, the guidance what we have given for the product launch for this year is 7.6 million, of which 0.7 million is what we actually launched in Q1. So, first of all, I would like to say that we are on course to achieve this number and we have a quarterly build up from now onwards. So, next quarter again we have launches adding up to almost 2,000 crores which are going to hit the market, in Q3, we have close to 2,500 crores of launches, which are likely to hit the market, and the last quarter will be again close to anything 2,000 to 2,500 crores. So, in all, it will be almost 8,000 to 8,500 crores of product value which we will be launching during the year. Specific to your question on premium luxury housing, which is 3.3 million, this is largely as Aakash talked about, this is floors in DLF 5, then we have

Goa residential, which is going to be and Phase-I of Sector 63. Those are the three which are sitting in this bucket of premium luxury housing.

Sameer Baisiwala: The second question is when we think about the demand outlook in general, demand has been good for last few months across the price point, across locations, so how long can this continue, and what are the risk to this?

Ashok Tyagi: I think it's just slightly on more macro than the micro really to get sense. When we had met, I know you unfortunately was not able to attend it, but six weeks back a lot of risks, which look on the interest rate front end, macro recession, which looks slightly farther away, now slightly closer. I mean, the Indian demand has so far at least managed to by and large beat it, as you can see, not only from us, but from all listed developers in this space. But I think clearly, if you're talking about 100, 125 basis points increase more in mortgage rates, with some recessionary trends, I think it'd be nice to say that it'll have no short-term impact. What we all hoping is that the impact will be transitionary and it will not have any lasting impact, but a little bit of impact say two more 50 basis points hikes if they come in the home mortgage rates to hawkish rated. I'm sure some people will start slightly more before buying into a new product. The price point, see, generally, industry has witnessed in the last four to six quarters, obviously makes things slightly more cost to buy than what they were hoping for four quarters back. So I think it's a dynamic question. The fundamentals of the economy and the market remain very solid. The players who are gaining market share and reporting good sales, most of them are in the organized sector, with extremely strong balance sheets, hopefully extremely strong governing mechanisms. So I think the challenges that we have in the early to 2010 should not be repeated for a large part of them. But yes, there is some headwinds for sure, which I think each player and each geography will have to navigate.

Sameer Baisiwala: Finally on DCCDL, a couple of questions. So one is, we are still at 88% occupancy. So how's the pre-leasing environment and when do you think this goes back to your usual mid-90s? And second is, I know we've talked a fair bit about the REIT formation, but in the mind of the two owners, what are the pros and cons that's sort of keeping you away so far?

Sriram Khattar: The vacancy leverage is at 88%. This includes the vacancy level at our SEZ in Silokhera. And we plan to go back to the mid-90s in the next four-odd quarters. The one bottleneck that had come about was the SEZ where the pickup by the new units has slowed down quite a lot. However, with the introduction of the new bill, which is development of enterprises and services up-spill in the monsoon season, we expect the demand in these places as the new avatar of IT parks should pick up from Q3 of this financial year. And therefore, the occupancies will start coming down. The issue that has been faced today is not that there is no demand, it is just that the business leaders are taking more time to decide the number of new workspaces that they need, because while hiring is going on in the IT sector at a very good clip, the comeback to office is slower than what we had projected. This is good news and bad news. The bad news is that the decision is taking a little bit time, but it is showing signs of coming back very strongly. The good news is that when we talk to the senior guys in the IT industry, they say that even if it is a hybrid model, the better companies, and the captives and GCCs are obviously planning that they will have to cater to the peak requirement of attendance that will take place during the week. And therefore, their requirements of more spaces will be much more. Plus this de-densification and having more collaborative spaces and spaces where people can interact will also add to that. One or two things if I may please take the liberty of sharing with you, it's very clear now in the market that the tenants are moving to quality assets, I mean, Grade-A buildings is passe now, they are moving to Grade-A-plus and A-plus, plus buildings which offer a very high level of sustainability, safety, wellness, which have a very strong level of compliance and infrastructure and equally importantly, opportunities to grow in that area. And therefore, if you see the plan that we have for offices, we are in the three geographic markets, where we have opportunities to grow for the next five/six years and these are basically the Gurgaon market, the Chennai market, and the Noida market.

Ashok tyagi: On your question on the REIT, sir, on a slightly lighter tone, you are far care on the REIT before the analyst day when a number of analysts came and confused us, whether we should be doing that or not. Thank you, sir. We have Navin Kedia, the CFO of Rentco who's actually doing the brunt work on that. I think at a stage if the two shareholders press a button, I think in six to eight months, we can get that into the market. I think most of the work is done. Now, the key is what is a good time and what is the good intent? So I think the pros and cons, Sameer ji, you know better than most of us frankly that given the challenges in terms of the high development potential that Cyber City has, there are obviously inherent differences between this portfolio vis-à-vis the portfolio of the other three listed REITs, which have a high proportion of the rented assets versus development assets. And in a REIT format, dividends obviously go up, but then obviously, all CAPEX have to be debt funded. It does inherently increase the leverage in the portfolio, while obviously the LTVs and all will keep on going down, all of those things are there. And then there's the macro piece where the initial 110 basis points interest rate hike, we had thought that's what a site spanner in the works, but the fact that the listed REITs have actually performed extremely well in the last few weeks since the entire interest rate hike has happened. For the first time, all the pundits uses to tell us that the compressed cap rate has to be GSec plus 50 to 100 basis points. Compressed cap rates for the listed, GSec is minus, something. So, I think we are more or less prepared in six to eight months once the two shareholders press the button we can go. But I think there are inherent pros and cons that I think both shareholders do need to consider and to be fair, I think it's obvious that both shareholders may have different objectives driving the REIT. The fundamental of the REIT still stay very strong, including the fact that it gives an opportunity for inorganic expansion as well in hopefully in a cash less zone. That's where we are. Most of the field work that had to be done I think is by and large done. Some clarifications, etc., will keep on coming. But I think we are at a stage where the two shareholders who are constantly in discussion on this piece. We continue to be at some of the work streams, including some long cycle work streams, like land dds and all are underway. So let's see, I mean, watch this space is all that I can say right now.

Moderator: The next question is a text question from the Biplab Debbarma from Antique Stock Broking. And the question is what are the projects, new phases launched in this quarter?

Aakash Ohri: So this quarter where the floors if you're talking about the new projects, the new launches and a small commercial project in Gurgaon and floors, and then of course, there was the other residual of super luxury and OMT. Yes, so this quarter floors and commercial.

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

Abhinav Sinha: Sir, a couple of follow up on what we discussed so far. So one, on the rental side when do we see Downtown Gurgaon becoming lease income earning and similarly, what will be the exit run rate for FY'23 as well as FY'24, if you can give us some guidance. So that's the first one. Second one is on DLF Devco cash flows. So good start to the year but considering the dividend outflow in 2Q, what are we looking for the end of the year, I mean, do we end say below Rs.1,000 crores of net debt?

Sriram Khattar: So the questions on the start of rentals for Downtown Gurgaon. I'm pleased to say that we've got the occupation certificate by end of June. The process of handover of the spaces to tenants has commenced. Whilst the rental inflow will start from October, I think it will be another few months after that when it comes to its full form. The run rate of the rentals in DP Gurgaon is in the ballpark of Rs.18 to Rs.19 crores a month. In terms of the run rate for DCCDL as a platform, I think the exit run rate at FY'23 should be about Rs.4,400 crores and 12 months later it should be about Rs.4,850/4,900 crores.

Abhinav Sinha: Khattar sir, on FY'24, just to be clear, we don't have another building opening up right in the next 12 months after we are done with Downtown Gurgaon?

Sriram Khattar: No, we have. Downtown Chennai, which is 2.2 million square feet is going to be finsihed in the middle of next year. So we believe that the rentals for that will start in the third quarter of FY'24. if I may please add, we have had a fairly good run till now where all the new buildings that are coming up, we are successfully able to pre-lease that. And our endeavor is the same for the Downtown Chennai also. Maybe because it's 2.2 million square feet and given the size of the Chennai market, it will be 80% or so. But our endeavor is to see that rental start immediately after the OC comes

Ashok Tyagi: Abhinav, not in the Cyber City portfolio. But I think by the time fiscal '25 hits us, our joint venture with Hines should also be in rent yielding mode.

Sriram Khattar: DLF platform even the Noida IT Park, by the later part of the year, about 800,000, 900,000 of the data center and the IT Park, the first building, should start yielding rentals.

Abhinav Sinha: The two retail will also start by that time, right, the Phase-V and the Goa one?

Sriram Khattar: They will probably start in FY'25 including DLF Avenue in Goa.

Abhinav Sinha: On the second one, the DLF?

Vivek Anand: You talked about collections. I briefly answered that, that the collections will continue to grow quarter-on-quarter. And you will see that in terms of phasing, second half will be higher compared to the first half because there are a lot of projects which we have launched in second half of '21, which will be coming towards the end of construction cycle and there will be corresponding collections happening there too from that. With regard to Q2 in particular, yes, there'll be a dividend outflow during this quarter, but two-third of that, as will be funded by DCCDL cash.

Abhinav Sinha: Just to gear up, we have close to Rs.2,000 crores net debt reduction in second half last year and basically 2Q, 3Q, 4Q combined. Do we see that again?

Vivek Anand: See, I think we opened with a net debt of Rs.2,600 crores. And you've seen this quarter again we've dropped our net debt upwards of 400 crores. So right from the beginning, we are not working on a number to be honest with you, but we are committed to bring it down quarter-on-quarter is what I am saying.

Ashok Tyagi: Frankly, the net debt number, now meandered into an irrelevant number. But I think you have it programmed in your muscle memory. So I think free cash flow is the focus on and I think the free cash flow will keep coming. But net debt frankly of course Rs.1,125 crores or Rs.898 crores, I think it's really entering into a zone of comparative insignificant from interest standpoints.

Moderator: The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: So firstly, just a follow up on the on the REIT side. So this is the first time in the last few quarters you sounded a bit cautious on the attempt to do the REIT, especially you highlighted the structural differences between the REITs and us. So firstly wanted to clarify, if there is any disagreement between the two partners on the intent to do the REIT?

Ashok Tyagi: No, absolutely not.

Kunal Lakhan: Sure, because the concern that you highlighted, right, in terms of like the ready portion versus under construction, I mean, we knew that from the start, right. So, just wanted to understand what could be the deal breakers here?

Ashok Tyagi: So there are two pieces. You're right, we knew it from the start. We had a very intensive discussion between ourselves both at DLF and with our partners on whether we should change the perimeter of the asset portfolio. And finally, we have agreed that we should go with all assets in Cyber City including the entire development potential, then obviously, that does create as you know a certain pressure on the financial metrics, which the bankers have rightfully highlighted. And I think we're just working on some of those tweaks. As in the current fiscal, the two Downtowns in Gurgaon will get completed, 12 months from now, downtown in Chennai will get completed. And each of these are an important completion from a rent yielding versus the development portfolio standpoint. So I think both the sides are clear that we need to move into a time when the macro is most conducive for value maximization. Luckily, neither of us needs to do it for liquidity frankly, and that is the most important piece. So both of us need to ensure that we do it at a time when actually we can maximize the value of that office.

Kunal Lakhan: So just to clarify, it's more than the intent, it's more of a timing issue?

Ashok Tyagi: It's a timing issue, it's not an intent, that's sure.

Kunal Lakhan: Secondly, we have announced 50% higher dividends for last fiscal and, and we've never had a formal policy, but rather, like an informal policy has been that we have always passed on the dividends that we've received from DCCDL as dividends to the DLF shareholders, but this year, we saw development business, scaling up on cash flow as well, which will continue to happen, right. So, would we look at formulating a dividend policy, just to give some outlook on to the shareholders? And also if you can give us some direction on how should we look at dividends going ahead?

Management: So right now, we will keep the REIT discussion out of the dividend policy because the REIT will dramatically alter the dividend. But assuming that the REIT will take place when it will, our dividend policy is very clear was that… you are absolutely correct, for the last few years, it was the Cyber City dividend which was being distributed, because let's face it, the Devco did not have distributable cash flows. It's only now over the last four to six quarters that the Devco has begun generating distributable cash flows. And initially, we had the discipline that we wanted to get the net debt under control. And now Vivek's managed to get that down to almost like a Rs.2,000 number. We felt emboldened enough to start declaring a small token of 250 crores dividend from the Devco this year. Hopefully, if the Devco cash flows continue to strengthen, we are focusing on slight increase…Vivek, correct me if I'm wrong of the Devco dividend year-on-year. On the Rentco side, I think it's pretty clear we reach there, that the free cash flow of the Rentco should be distributed between the cap and the first chart on the free cash flow is of the CAPEX that they need to incur and the residual piece part of it goes into dividend. So right now Cyber City, this year had declared a Rs.750 crores dividend, and hopefully, definitely sustained and maybe as more and more properties start to come coming, it will grow. And obviously, once the REIT happens, these dynamics and these numbers change dramatically.

Kunal Lakhan: And my last question was earlier in your comments you mentioned that the supply for the industry has started to increase. Any chance that we'll look at upfronting the new launches that we have earmarked for FY'22, the 7.6 million square feet that we have outlined, any chance that we could upfront these launches?

Vivek Anand: I think last year if you really look at our total launches were 6 million square feet, this year it's around 7.8 million square feet. So there is an upscaling which has already been considered. Now, if you're saying within the quarters, are we really planning? I think as you know that for these launches, there is a lead time involved in planning, designing and approval process. I think at this point in time, whatever plans we have put, we will stick to those plans, and we are committed to really delivering them on time.

Moderator: The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead,

Saurabh Kumar: Sir, just kind of follow up on this cost piece. So, Mr. Tyagi, I heard you said 35% is target, but the issue is as your sales grows, your operating costs will keep increasing, it's unlikely to come down. So, I just want to make sure that, what is the target EBITDA or does DLF have a target EBITDA or just you have a target gross margin?

Ashok K. Tyagi: Saurabh, as Vivek and I both mentioned at the start of the earlier question, we obviously have a target EBITDA, which is the 35%-plus level for sure. Our costs have gone up, and I think, Vivek, you're nearer to ground. I think the costs have now begun sort of stabilizing, because the one-time ramp up… please appreciate, Saurabh, two years back, we were Rs.2,500 crores sales with the company with like hardly any new projects, and from that we have suddenly scaled up new geographies, new products, and obviously we get a fees for supporting the Cyber City Capex expansion as well, all of those things. So I think predominantly salary, but even the non-salary overhead had moved up in that sense. And I think the rate of growth of the overheads and all is now more or less plateauing. And what I said was that the margins will hopefully keep on growing, because the margins that we need to look at today are the products which are on the sales levels which are three or four years prior. So I think as the new cycle takes off, and sort of begins catching, hopefully this ratio will keep on improving.

Vivek Anand: Just for the sake of repetition, I think the new products what we are really bringing into the market, they are margin-accretive, upwards of 50%. I gave you an example of City Floors, Rs.3,000 crore of products, which we've launched, they are almost close to a margin of 55%, the one which we are planning in Q3 will be close to 60%. So, I think very clearly, they are margin accretive. And the other thing, what we are really doing is, when we are beefing up the organization, what we are really working hard is to really make sure that we improve the speed of execution on ground. As as we improve the speed of execution, it will help us record our revenues. So I think it's a combination of all what we are working. Speed of execution will get revenue faster, so I'm able to grow my top line faster. My margins on new products, the hurdle rate of 50% is really going to make sure that that I continue to really replenish at par with my existing margin threshold or even higher. And as Mr. Tyagi said that the cost base has been reset. And I think that's not really going to really keep growing from here. So therefore, hopefully all this will really result right in the near future, where we will slowly hit the EBITDA of 35% and continue to really improve thereafter.

Saurabh Kumar: But if you look at your slide #9 and #10 of the presentation, the new project gross margin, you claim Rs.1,800 crores of gross margin against sales of Rs.4,600 crores on page #10, the gross works out to nearly more like 40%, not the 50% mark. So, I'm sorry to deliver this point, so what is giving you the confidence that this number kind of sustainable?

Vivek Anand: I can separately share the details product wise. I gave you a big example, out of the total Rs.4,400 crores what we've really done in the past couple of quarters, I give you one example, the biggest products, which is floors is at a 55% margin, which is almost Rs.3,000 crores, almost 65% of that, but I'm happy to share details offline.

Saurabh Kumar: Just one follow up question. Historically in 2012 to '14, we used to have huge cost escalations, versus what the budgeted numbers were. Is there anything you have done in this cycle to make sure because inflation is hitting, so basically to manage your budgets better and what's the like-to-like cost increases you've seen in the portfolio versus the January start?

Vivek Anand: You'll have to maybe repeat what you just said?

Saurabh Kumar: So historically we have seen in DLF the cost escalations have been very massive at least in the last decade. So this time around, have you done something better to basically ensure that the cost escalations don't hit you, because now again, entering an inflationary period? The second is basically, what's the like-to-like cost increase you see versus budgeted today, what's been the experience in the last six months?

Vivek Anand: So I think on the fixed costs, we've been very clear on our guidance and I think we gave a guidance when our business was Rs.4,000 crores. Again, I outline my guidance on fixed costs, when we are scaling up to Rs.8,000 crores. I think let me move to the construction cost. I think that's where I think your bulk of the question is. I think one of the learnings what we really applied is to very, very closely monitor the construction cost. So just to let you know that at this point in time, we have more than 35 live projects on ground, and we make construction budgets every month. So there is a review which happens every month in terms of how the construction cost is really moving so for all the projects which are live, and for all the projects, which are there in the pipeline, and that gives us early warning in terms of really positioning our pricing for that product. So I think that's something which is really embedded in our business, like I said, as a margin, a hurdle rate, that's very, very large part of the project budget discussion what we really do, there is a very high focus on cash. So while there is a hurdle rate for margin, there is a hurdle rate for cash. And the construction budget reviews what we do on a monthly basis, clearly keeps us very close to the ground reality in terms of how the inflation is.

Ashok Tyagi: The one mistake that we did in 2012, '14, since I'm a survivor of that period as well which we are not repeating now. And this sort of ties into some of the questions raised in the call on upfronting of launches, etc., is that at least definitely on the high rises. We are definitely not going to launch anything till all of our contracts are in place, designs are done and good for construction drawings issue. Actually, Saurabh, we are in time and now the discussion is technically time part. The fact is that a large part of the hits that we got that time was partially on account of inflation, but partially on account of the fact that we had maybe launched those products prior to doing the detail cost estimation of where we were. I think that mistake is definitely not happening. Obviously, the inflation on commodities and all, as Vivek explained at length in the last quarterly call has taken a toll. But the good news is there are no surprises that are happening. Every month, even if a project cost goes up by Rs.1.25 crores, the business leaders when they are saying or Vishal Damani, they are on top of it, RK, everybody knows okay it has increased, that's it. So, surprise element is not there. I mean, but yes, obviously, we can't control the macro inflation, but that is the way. I don't think this discipline we necessarily had in the 2012 to 2014.

Vivek Anand: In fact, if I were to also add, we are also further strengthening our project management process. And one of the things we are really doing is that this whole project management, which a large part of it, we do outside ERP, we are planning to really bring it into ERP, so that we can really closely monitor the execution of the project, the planning of the project, the cost escalations. As we are scaling up, we are really getting ready how to really handle the scale as we go forward.

Aakash Ohri: One thing that I'd like to add to your point, which I feel we never get any marks for is, obviously, one is the inflation and all the other finance-related matters, which is we can't take away from it because it's business The other thing I think our biggest thing is that we continue to improvise. And to the point that you mentioned, we irrespective of what our financial commitments have been to our investors, we have gone back and better the product in its lifecycle. So, if you ask me, I think that is something that we have continuously done. We can't take that out of our DNA. Those projects have never gone back and given us more money, but definitely, they have done wonderfully well for our investors. You look at from any point of view and all those products, we have gone back to making them better so that both from the point of view of the product and from the point of view of what the actual investment returns for our investors…our investors, I continue to say that not to us, we may have lost money, but I think that is something that we are hopefully changing. Financially, yes, everything, but I think to continue to better ourselves every day and to keep the aspirations going, I think that is something you really can't put a finger to it. But that is something that I feel collectively has helped keep the DLF brand goodwill on top and continue to make us aspirational and we've done it on our account. so I think that is one thing also probably, I don't know whether we can still change. But I think there's a hell of a lot of discipline as Vivek just mentioned and Mr. Tyagi, every month. Also to add to what Vivek said that every time there is a 1.5 crores increase somewhere it's passed on to me too. So I understand the pain more than any one of you. Trust me.

Sriram Khattar: Saurabh, and our other analysts friends, if I may take the liberty of adding, I would request you please go to slide #26 which again, what Aakash was mentioning are some of the softer issues which probably don't get highlighted when we're talking of numbers all the time, is that in terms of safety and sustainability, we've taken a leadership position across the globe now. And we have one of the world's largest US Green Business Council, LEED Platinum certified portfolio. We have the largest portfolio in LEED Platinum Zero, which is in the area of water, which is again the largest portfolio in the world. And recently, we have got the LEED Platinum for the cities and communities for DLF Cyber City, Gurgaon. Most of you have visited it, you know that while it is a Cyber City, it is not a gated community, and it is open right across and it's really like a small city. And we are the first developer owned community in the world which has got this platinum rating. And I think as we go forward the steps that we take in the area of safety and sustainability, help us position our products in a better way, and also contribute to what has now become important in terms of sustainability and carbon-neutrality.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Ashok Tyagi for closing comments.

Ashok K. Tyagi: So again, thanks all of you for taking your time on Saturday and joining us for this call. We could have waited till Monday, but we rightfully felt that we should do it the day after the results. As you know from the results as Vivek and everybody else explained to you have been reasonably robust. And I think we are looking at a good year hopefully. I mean, the current year could have some more macro headwinds as we outlined than the previous year, but I think clearly our basics are now falling into place. The Rentco piece is actually now performing far better than what was 12 months back when we had the peak of COVID, the vacancy levels were dropping, new CAPEX are back in play, retail has had a dramatic turnaround. And I think hopefully as we keep on reconnecting back with you every quarter, we will keep you abreast of all the new developments that are happening including the new launches and hopefully we will continue to enjoy your support. Thank you.

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