DELHI LAND AND FINANCE

— BUILDING INDIA

EQUITY RESEARCH REPORT

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EXECUTIVE SUMMARY

DLF Ltd. was founded in 1946 by Chaudhary Raghvendra Singh, it started with the creation of 22 urban colonies in Delhi. In 1985, the company expanded into the then-unknown region of Gurugram, creating exceptional living and working spaces for the new Indian global professionals. Today, DLF is the largest publicly listed real estate company in India, with residential, commercial, and retail properties in 15 states and 24 cities.

DLF Limited is a subsidiary of Rajdhani Investments & Agencies Private Limited. DLF Limited, together with its subsidiaries, engages in the business of real estate development in India. Its activities include the identification and acquisition of land; and the planning, execution, construction, and marketing of projects. The company also develops and sells residential properties, such as land, plots, apartments, and commercial units; and operates and maintains commercial office spaces, and retail properties, which include malls, and hospitality projects. Further, the company engages in the leasing business; provision of maintenance services; generation of power; and recreational activities.

COMPANY OVERVIEW

HISTORY: Delhi Land & Finance (DLF Limited) was incorporated as a Delhi-based commercial real estate development company on July 4, 1946, by Chaudhary Raghvendra Singh. DLF initiated its residential ventures with Krishna Nagar in East Delhi, completed in 1949.

However, the growth trajectory faced a significant obstacle with the passage of the Delhi Development Act in 1957, granting the government control over all real estate activities in the city. Adapting to this challenge, DLF shifted its focus to Gurgaon, recognizing its potential for residential and commercial development. Under the leadership of Chairman K.P. Singh. DLF acquired land in Gurgaon, sparking a period of rapid expansion. The company's pivotal project, DLF Qutab Enclave, evolved into DLF City, a sprawling 3,000-acre integrated township. DLF City is a testament to modern urban planning, encompassing residential, commercial, and retail properties.

DLF's growth reached a historic milestone with its monumental US$2 billion IPO in July 2007, marking India's largest IPO at the time. In the first quarter ending 30 June 2007, the company reported a turnover of ₹31.2098 billion (US$390 million) and a profit after taxes of ₹15.1548 billion (US$190 million). Today, DLF Limited stands as a prominent player in the Indian real estate landscape, shaping modern cities and pioneering innovative developments.

VISION: To contribute significantly to building India in a safe, compliant way and become the world's most valuable and sustainable Real Estate Company.

MISSION: To contribute significantly to building India in a safe, compliant way and become the world's most valuable and sustainable Real Estate Company. To build world-class Real Estate concepts across all business lines with the highest standard of safety, Professionalism, Ethics, Quality, Customer service, Social responsibility, and Compliance.

BUSINESS SEGMENTS: DLF Limited, in conjunction with its joint ventures, operates predominantly in the business of real estate development, employing a business model that generates revenue from both development and rentals. The company's diversified portfolio spans various businesses, segments, and geographical locations, providing resilience against market downturns. In addition to its core real estate activities, DLF has expanded its presence into infrastructure, Special Economic Zones (SEZ), and the hotel industry.

The company's operations encompass the entire spectrum of real estate development, including land acquisition, project planning, execution, construction, and marketing. DLF also extends its expertise to diverse sectors such as power generation and transmission, maintenance services, hospitality, and recreational activities. Amidst the backdrop of a thriving Indian economy, the company remains poised to capitalize on these prospects and further enhance its position in the market.

INDUSTRY ANALYSIS

At a time when major global economies are weighed down due to inflation, rising cost of capital, and growth uncertainty, India's real estate market stands strong, by navigating through difficult market conditions. The market's resilience can be assessed by observing increased transaction volume and capital allocation across a wide range of asset categories. While some volatility and uncertainty will remain in the short-term, the industry is well-positioned for a robust 2023 and beyond.

Institutional investments in Indian real estate touched $4.6 bn during January-September 2023, a 27% YoY increase, highlighting the resilience and attractiveness of the market despite prevailing global challenges.
The total institutional investment for the first nine months of 2023 has reached 93% of the total inflows recorded in 2022, despite a clouded global economic environment.

FUTURE PROSPECTS

The real estate industry in India has a very bright future and will proliferate in the future despite the global recession due to the following factors: the rapid urbanization which has created a demand for houses in the urban areas which helps the real estate industry to grow. The government's emphasis on affordable housing schemes and initiatives like "Housing for All by 2022" could provide opportunities for growth in this sector. India's rapidly growing population is expected to continue driving the demand for real estate.

Government investments in infrastructure projects, such as the development of smart cities, airports, and highways, can positively impact the real estate market. Demand for commercial real estate is growing due to the increase in the co-working culture. Growing awareness of sustainability and environmental concerns may lead to increased interest in eco-friendly and green buildings.

KEY DRIVING FACTORS

The major factors that impact the real estate sector is the demographics of the country, with the rise in population the demand for houses will automatically increase because people will be looking for houses to live in. The rise in per capita income can also increase the demand for real estate as the purchasing power of the households increases.

Interest rates also have a major impact on the real estate market. Changes in interest rates can greatly influence a person's ability to purchase a residential property. That's because the lower the interest rate, the lower the cost of a mortgage. That's great for borrowers, but it can also create greater demand for real estate, which then pushes prices up. As interest rates rise, the cost of a mortgage increases, thus lowering demand and real estate prices.

Legislation is another factor that can have a sizable impact on property demand and prices. Tax credits, deductions, and subsidies are some of the ways the government can temporarily boost demand for real estate.

REAL ESTATE MARKET CYCLE

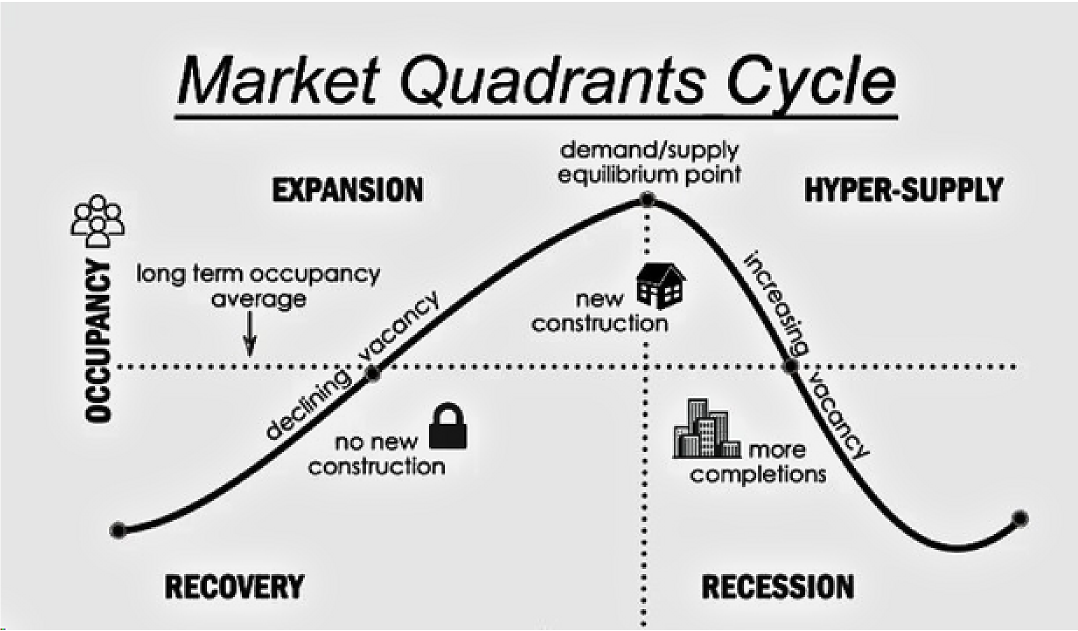
The real estate market of India has a typical 7–8-year period comprising 4 primary phases. The phases are- recovery expansion, hypersupply, and recession

- **Recovery:** The real estate cycle kicks off with the recovery stage. At this point, most of the country is still recovering from a recent economic downturn, and the property market is starting from a low point following the recession. During this phase, rental growth is minimal, and new construction projects are scarce. So, prices are low and promise high future returns with high risk.
- **Expansion:** Characterized by robust economic growth and restored confidence in the economy. At this point, both individual renters and homebuyers drive demand in the market. Investors become increasingly interested in acquiring new rental properties or renovating existing ones due to the high demand. We are in this phase. A good example of this would be the sale of 1187 apartments worth ₹8000 crore in Gurgaon before the project was even launched by DLF.
- **HyperSupply:** In a hyper-supply phase, supply finally catches up to high demand as construction projects come to a close. There's an oversupply in the market because either there's too much inventory or there's a sudden change in the economy that causes demand to pull back. Many real estate investors will liquidate inventory because they're worried about their properties going empty or unsold. Therefore, in this phase, investors will either hold off on selling until after the expansion phase (buy and hold approach) or could invest in an oversupplied tenant building that has long-term leases because it'll continue to generate steady cash flow through the recession.

- **Recession:** During the recession, there was a huge imbalance between supply and demand, resulting in high vacancy rates and negative rent growth for property owners. During this period, some opportunistic investors will seek out accessible investment opportunities since properties will be selling at rock-bottom prices, especially foreclosures. They wait for the real estate cycle to turn around and the downturn to end, as the market starts to recover and eventually grow.

We are at the expansionary stage of the cycle. It appears that over the next 3-4 years, the demand will continue to remain strong. The demand is coming in, not only on the back of a very strong economy and the job market growth but also on the back of a lot of reforms that have been done on the supply side. As a result, we are now seeing developers who are launching, focusing on completion, execution, and doing a much better product, making sure that they are delivering on the timelines.

It does appear that the cycle will continue in this expansionary phase for the next three to four years.



PESTEL ANALYSIS

1. POLITICAL

a) Political instability causes fear in the real estate market. It refers to a lack of confidence amongst investors, buyers, construction firms, and developers of real estate projects. This happens because people are still determining the future. Owners try to sell their property while buyers and investors hesitate to invest. eg; Investors would not like to invest in a real estate market of unstable markets like Afghanistan.

b) The Indian government has implemented policies to promote affordable housing (namely Pradhan Mantri Awas Yojna - Urban), which may benefit DLF's mid-income housing projects.

c) Different state governments have different priorities for the real estate sector. Some state governments believe that people with high purchasing power are linked to the real estate sector; therefore, they classify such people with financial power who can pay taxes. Some state governments lower property taxes, enabling most people to buy property. The state government's policies on taxes, land acquisition, and development may affect DLF's business strategy.

d) The government's policies on foreign investment and taxation may affect DLF's ability to attract foreign investors.

e) Elections play a huge role in real estate prices, especially the medium to high-end range. Many parties/politicians hold funds tied to their properties and liquidate them before elections for various campaign needs, which lowers prices. However, as soon as elections are over the demand shoots up again.

f) If an elected government is differential and unsympathetic in its behavior towards the luxury real estate segment, DLF’s sales may be affected by the ruling party's viewpoint on the luxury segment.

It can be observed how the prices fall before central elections and recover after the central elections.

2. ECONOMIC

a) A key factor that affects the value of real estate is the overall health of the economy. This is generally measured by economic indicators such as the GDP, employment data, manufacturing activity, the prices of goods, etc. Broadly speaking, when the economy is sluggish, so is the real estate market.

b) However, the cyclicality of the economy can have varying effects on different types of real estate. For example, if a REIT (Real Estate Investment Trust) has a larger percentage of hotels as investments, it would typically be more affected by an economic downturn than a REIT that had invested in office buildings. In the case of the commercial real estate industry.

c) In India, it is highly competitive and well-organized. Demand for commercial real estate space has undoubtedly increased as a result of several government reforms, a growing economy, and the impacts of the COVID-19 pandemic. Co-working as a culture is growing rapidly in India. Over the next three to five years, the co-working sector is predicted to increase three times, creating enormous prospects for this industry in India.

d) Co-working has now solidified itself as a mainstream industry, contributing significantly to the increase in lease activity for coworking spaces in real estate. Hotels part of the real estate sector is very sensitive to economic activity due to the type of lease structure inherent in the business. Renting a hotel room can be thought of as a form of short-term lease that can be easily avoided by hotel customers should the economy do poorly. Because if the economy is facing a downtrend then the purchasing power of the individuals decreases.

e) The global challenges posed by COVID-19 and the Russian-Ukraine war contributed to inflationary conditions worldwide. To counter the same, central banks across the world raised interest rates. Despite the increase in interest rate by 2.5% within one year, housing prices in India have continued to increase by 4.84% between March 2022 and March 2023, as reflected by the National Housing Price Index. This can be attributed to India's unique position as one of the fastest-growing economies, with a promising outlook for the future. The Indian government estimated a GDP growth rate of 7% during the fiscal year 2022-23, which is higher than other emerging and developed economies. This robust economic growth has sustained the demand for housing, particularly in segments like mid-range, premium, and luxury housing, leading to the upward trajectory of prices.

f) The Reserve Bank of India has maintained stable interest rates for home loans. This stable interest rate environment encourages prospective buyers to consider investing in real estate. The consistency in interest rates creates a sense of financial security, driving people to make home purchases. Despite multiple rate hikes and the challenges posed by the COVID-19 pandemic, the real estate market has experienced strong demand. This pent-up demand is attributed to the period of uncertainty caused by the pandemic. Consumers who were hesitant to invest in property during the pandemic are now eager to make purchases, contributing to robust market growth. Over the years, affordability has improved in the Indian real estate market. Rising wages and stable home prices have made homes more accessible to a wider range of buyers. As a result, there's an increase in demand across various segments, from affordable housing to luxury properties.

3. SOCIAL

a) DLF's target market includes high and upper-medium-income groups who are demanding high-end luxury properties. Notably, the sale of luxury homes during the first quarter of 2023 witnessed an astounding annual increase of approximately 151 percent.

b) The COVID-19 pandemic has led to changes in consumer behavior, with more people working from home and preferring larger homes with outdoor space which changed the property development strategy. Large homes in the top 7 cities have demonstrated an impressive average price appreciation of 24% over the past five years. In contrast, affordable homes have seen a more modest 15% price increase during the same period.

c) Due to Indian families shifting from joint to nuclear families (now 50%, up from 37% of households in 2008), families in tier 1 cities don't hesitate to purchase flats. In contrast, a decade earlier, people would have preferred land. With India's population projected to reach 1.5 billion by 2030, the market is huge.

d) The idea of integrated living is quickly taking on in the residential sector as house buyers have begun to favor developments with state-of-the-art amenities, including office buildings, parks, schools, hospitals, and shopping centers with multiplexes.

4. TECHNOLOGICAL

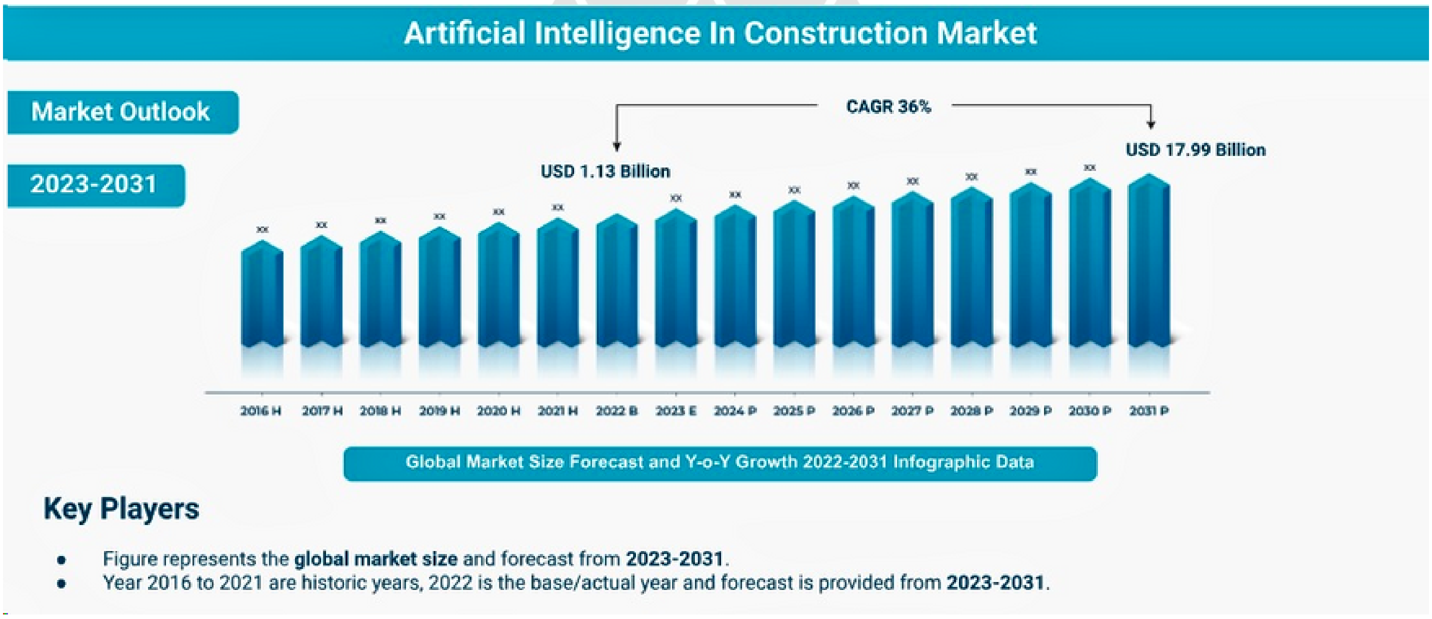
a) DLF has leveraged technology to enhance the quality of its constructions. The implementation of Computer-Aided Design (CAD) and Computer-Aided Engineering (CAE) software has allowed engineers to model and remodel designs, optimizing resource utilization and construction efficiency. This has resulted in quicker construction times and increased overall efficiency.

b) DLF has prioritized the well-being of its occupants by investing in advanced technology. The company has installed MERV 14 Air Filters across its entire portfolio, ensuring exceptional indoor air quality that surpasses American standards. Through partnerships with leading inspection companies like SGS India, DLF has scientifically validated its efforts, showcasing a remarkable 90% reduction in harmful pollutants.

c) DLF has embraced a 'Phy Digital' strategy, combining online-to-offline (O2O) technologies to enhance customer experiences. Utilizing the Internet of Things (IoT), cloud computing, Big Data analytics, and machine learning, DLF has developed innovative solutions to boost footfalls in its shopping malls. Strategic partnerships with leading banks like State Bank of India and ICICI Bank have allowed DLF to incentivize shoppers through cashback programs, fostering customer engagement and loyalty.

d) By anticipating future needs, DLF has strategically located a Tech Park near the Noida Expressway and Metro line. This 25-acre project with a potential build of 4 million square feet showcases DLF's commitment to revolutionizing the workspace ecosystem, aligning with the evolving demands of the market.

e) DLF Limited, in collaboration with Family Office and Anthill Ventures, has launched the second edition of Gruhas ASPIRE, a six-month scaling program for early-stage prop-tech start-ups. This initiative focuses on enhancing productivity and sustainability in the construction and real estate sector by offering solutions for innovative, mission-free materials and technologies in construction, and smart property management for selling and leasing.



5. ENVIRONMENT

a) There is an extensive impact of climate change on the real estate sector, leading to increased severity of extreme weather events and natural disasters. This awareness has driven DLF to design its buildings with higher seismic resilience, ensuring greater durability during earthquakes.

b) There is rising environmental consciousness and judicial activism in India. Regulatory bodies like the National Green Tribunal impose penalties on builders violating green norms. DLF, as a responsible entity, incorporates Environmental, Social, and Governance (ESG) practices into its operations, aligning with the changing regulatory landscape. It demonstrates a commitment to sustainable practices by designing buildings that comply with LEED Green Building norms. Over 40 million square feet of its rental portfolio have received LEED Platinum certification. The company's buildings also feature rainwater harvesting wells, promoting water conservation and flood prevention.

c) DLF capitalizes on India's growth in green infrastructure propelled by government policies and incentives like lower property tax rates, reduced stamp duty, and income tax deductions. By aligning with international standards and focusing on energy-efficient buildings, DLF stays ahead of climate-related policy changes. LEED-certified buildings are in high demand, attracting environmentally conscious customers, and enabling DLF to maintain a competitive edge in the market.

d) DLF actively addresses environmental concerns by adopting onsite renewable energy generation methods. The company has installed rooftop solar plants with a capacity of 3.5 MW across its rental business buildings. Furthermore, wind power is utilized to cater to electrical energy requirements in DLF's commercial buildings. Open-access power from solar power plants is also utilized in select retail properties, showcasing DLF's commitment to reducing its carbon footprint.

6. LEGAL

Real estate in India is governed by multiple laws that vary across States. Some vital laws impacting the country's realty landscape include the Real Estate (Regulation and Development) Act, of 2016 (RERA), the Transfer of Property Act, of 1882, and the Registration Act, of 1908.

Indian Stamp Act, 1899, and Registration Act, 1908
These acts oversee laws regarding the need for the registration of diverse types of deeds, instruments, and documents concerning the transfer of an interest in immovable property and the payment of stamp duty on the same.

Real Estate (Regulation and Development) Act, 2016 (RERA)
Real Estate Act, 2016 looks into the development, marketing, and sale of realty projects to safeguard consumers' interests when investing in the sector. The act also established an adjudicating method for the speedy redressal of disputes via the Real Estate Regulatory Authority and the Appellate Tribunal. It also mandates compulsory registration of real estate projects under its ambit. Many States have adopted corresponding RERA regulations to make sure that the central act is implemented at a local level. The main reasons for introducing this act were to ensure complete transparency in the contracts and ensure carpet area standardization. Holding builders accountable for any defects and restrictions on delaying the projects.

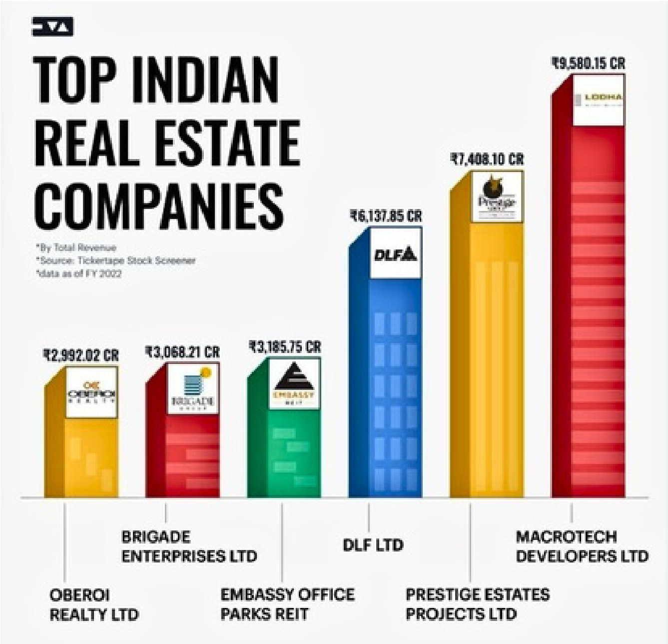
Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
This Act ensures that families and individuals are compensated equitably in the event of the acquisition of private land parcels by the Government for a company or specific public purposes. It broadly lays out the remuneration and rehabilitative measures to be taken by the government in the case of property or land acquisition.

Transfer of Property Act, 1882
The Transfer of Property Act of 1882, is a central act and lays down the general principles of ownership of immovable assets, such as exchange, sale, lease, mortgage, and gift of property.

Market Structure

The Indian real estate industry is a vital contributor to the economy, expected to reach a US$ 1 trillion market size by 2030, comprising 18-20% of India's GDP. It is the second-largest employment sector after agriculture and contributes 5-6% to India's GDP and capital formation. The market structure is highly fragmented, characterized by a mix of oligopoly and monopolistic competition.

In specific cities and market segments, a few major developers hold significant market share, creating an oligopoly-like situation. These players influence pricing and market trends in their regions. Simultaneously, numerous smaller builders operate across the country, fostering a competitive landscape akin to monopolistic competition.
The industry is dominated by a handful of pan-India branded developers such as DLF, Prestige Estates Projects, Lodha Group, and Oberoi Realty, alongside numerous local players. This diverse market structure reflects the coexistence of oligopolistic tendencies and competitive dynamics, shaping the state of competition in the Indian real estate industry.



COMPARATIVE COMPANY ANALYSIS

METHODOLOGY

Step 1 – We took the current market price and shares outstanding and multiplied it to calculate the equity value of DLF and its 3 major competitors. We then proceeded to calculate Cash and cash equivalents and subsequently calculated net debts by subtracting total debt from total cash and cash equivalents.

Step 2- Enterprise value was calculated as a sum of Equity and Net Debt subtracted by Cash and Cash equivalents. Cash was subtracted as it is a non-operative asset. Revenue and net income were found and EBITDA was calculated.

Step 3- The multiple of Enterprise value and Revenue, Enterprise Value and EBITDA, and PE ratio was calculated.

Step 4- The high, average, and low of all the above multiples for the 3 competitors were calculated.

Step 5- The average ratios were used to first calculate the implied enterprise value which was the product of the average and revenue of DLF. This value was subtracted from the Net Debt and divided by the shares outstanding to reach the implied value per share.

Step 6 – EV/EBITDA and P/E ratios were also used for calculating Implied value per share in the same manner. The lower and upper bands of all the 3 methods were also calculated for better analysis.

ASSUMPTIONS

1. The Comparable Company Analysis is based on the assumption that companies that are similar in size, industry, and stature will have similar valuation multiples (EV/Revenue, EV/EBITDA, and P/E in this case).
2. The companies chosen for the CCA are Godrej Properties Ltd., Oberoi Realty Ltd., and Phoenix Mills Ltd. since they are the chart toppers alongside DLF in terms of current market price and market capitalization.

SUMMARY

DLF VALUATION			
Base Case - Average	**EV/Revenue**	**EV/EBITDA**	**P/E**
Implied Enterprise Value	93,908	61,195	95,666
Net Debt	1,059	1,059	1,059
Implied Market Value	92,849	60,136	94,607
Shares Outstanding	248	248	248
Implied Value Per Share	**374**	**242**	**381.48**

For detailed workings of the COMPS valuation exercise, readers can be referred to the following link:
https://bit.ly/DLFCOMPSXFC

FINANCIAL STATEMENT ANALYSIS

The team reviewed significant changes in the line items of the financial statements and analyzed the reasons behind the movement.

Balance Sheet

Reserves have been increasing due to increasing profitability and reduced capital expenditure. The company's capital expenditure decreased by 16.7% year-over-year in FY 2022-23. The company reported a net profit of ₹12,000 crore in FY 2022-23, up from ₹9,000 crore in FY 2021-22. All of these reasons resulted in higher reserves.

BORROWINGS -

There are a few reasons why DLF Ltd.'s long-term borrowings are decreasing while its short-term borrowings are increasing.

- **Decrease in long-term borrowings** (the long-term debt matured early)
- **Repayment of debt** : DLF Ltd is repaying its long-term debt, from its cash flow and through new financing. This reduces the company's overall debt burden and improves its financial health.
- **Maturity of debt** : Some of DLF Ltd.'s long-term debt is maturing and is not being rolled over. This would also reduce the company's long-term debt burden.
- **Change in financing strategy:** DLF Ltd is changing its financing strategy to rely more on short-term debt and less on long-term debt. This is due to several factors, such as lower interest rates on short-term debt and a need for more flexible financing.
- **Funding short-term needs** : DLF Ltd is using short-term borrowings to fund short-term needs, such as working capital or inventory.

FIXED ASSETS -

The land has decreased in recent years.
Sale of land: DLF Ltd. has sold some of its landholdings. This has been done to raise cash, to fund new investments, or to optimize its portfolio.
Land bank monetization: The existing land bank is being put to use by the company to start new projects.
CWIP has been decreasing in recent years. This is due to the completion of previously managed business, the sale of some of the projects, or some part of a few projects.

(all figures are in ₹ Crore)

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Sep-23
Equity Capital	357	357	441	495	495	495	495	495
Reserves	24,216	34,204	32,385	33,952	34,849	35,867	37,192	37,360
Borrowings	29,202	17,491	17,222	8,103	6,785	4,182	3,334	3,317
Other Liabilities	10,179	8,533	16,434	13,341	11,358	10,623	11,551	14,886
Total Liabilities	63,954	60,585	66,483	55,890	53,488	51,167	52,572	56,058
Fixed Assets	24,640	8,082	6,322	5,187	4,856	4,862	4,785	4,779
CWIP	153	137	103	89	95	81	61	61
Investments	1,209	20,832	21,005	18,566	19,746	19,779	19,481	19,824
Other Assets	37,952	31,533	39,053	32,049	28,791	26,444	28,245	31,393
Total Assets	63,954	60,585	66,483	55,890	53,488	51,167	52,572	56,058

Profit & Loss Analysis

DLF Ltd.'s sales are observed to be unstable within the three years, with an overall decreasing trend. This is due to a variety of reasons.

- The biggest challenge for the real estate sector has been the Covid-19 pandemic that hit the economy. During the pandemic period, the real estate sector was one of the worst-hit sectors. The pandemic resulted in a serious liquidity crunch for real estate developers. The credit shortage also reduced residential sales.
- Another reason is the rapidly rising interest rates. According to estimates, a 1% increase in home loan interest rate reduces house purchase affordability by 7.4%. Hence it was expected that DLF's sales would be impacted because of a rapid rise in interest rates.
- However, with the changing economic scenario, the worst could be over for DLF. The TTM period is seen to mark a positive surge in sales, indicating promising prospects for DLF Ltd. shortly.

The expenses are seen to be fairly stable. There has been a shift in costs from manufacturing costs to employee and other costs. This is due to the increase in labor costs post-pandemic. The rising inflation rates have the greatest impact on lower-income earners and their households as they have to spend most of their disposable income on essential goods and services. This has manifested in the surge in the cost of labor.
Interest has seen a rapid decrease. This is a direct result of the decline in DLF's long-term borrowings. A significant portion of the company's overall debt burden has been reduced, manifesting as minimized interest costs. Given the decline in sales, however, the profits of the company have not declined in the same way.

The profits of the company have been on the rise since December 2021. Along with interest rates the cost of residential property also saw an increase and as a result, the company's profits increased. The economy ahead also promises a prosperous year for DLF and the real estate sector at large.

(all figures are in ₹ Crore)

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	TTM
Sales	8,221	6,707	8,366	6,083	5,414	5,717	5,695	5,722
Expenses	4,775	4,329	6,218	4,937	3,945	3,974	3,969	3,988
Operating Profit	3,446	2,378	2,148	1,146	1,469	1,743	1,726	1,734
OPM %	42%	35%	26%	19%	27%	30%	30%	30%
Other Income	1,135	9,722	784	1,135	383	195	317	412
Interest	2,980	2,951	2,062	1,427	853	625	392	355
Depreciation	572	534	225	200	159	149	149	148
Profit before tax	1,030	8,615	646	653	840	1,165	1,502	1,643
Tax %	22%	50%	43%	326%	43%	28%	27%	
Net Profit	708	4,477	1,314	-590	1,083	1,500	2,034	2,236
EPS in Rs	4.01	25.02	5.98	-2.36	4.42	6.06	8.22	9.05
Dividend Payout %	50%	8%	33%	-85%	45%	49%	49%	

Cash Flow Analysis

Cash flow from operating activities.(net percentage decrease is 16.13%)

The company paid off 61% of short-term loans earlier in light of rising interest rates 63% of earnings were retained and transferred to the reserve. WC changes decreased by 25 percent approximately which was mainly the effect of current/non-current assets increasing by ₹ 5.7 crores (vs decrease of ₹97 crore in FY22). Direct taxes decreased 139 % due to P/L tax booked at ₹400 crores. Inventory cleared earlier than expected due to a rise in demand.

Cash flow from investing activities (net decrease was 272.6%)

DLF Ltd. Purchased PPE worth ₹750 crore and ₹2870 crore in investment properties. Equity Investments was ₹178 bn and NCD investment worth ₹30.6 crore in DCCDL. FD investments increased to ₹14bn (vs ₹3bn in FY22). Dividend received ₹ 950 crore (vs ₹340 crore in FY22) from DCCDL group which was an 184% increase showing that the investment in this particular subsidiary is paying off well. Other investment items increased by 250% which Includes loans to related parties at ₹500 crores (vs ₹430 crores outstanding at FY22 end);₹280 crores (vs ₹ 89 lacs in FY22) in other financial assets under advances due from a related party; ₹ 850 crores (vs ₹ 700 crores in FY22) in advance income tax.

Cash flow from financing activities. (decreased by 47%)

Redeemed Non-convertible debentures worth ₹500 crores a year earlier because of the availability of cash and chances of an increase in interest rates, which also showcases the company's healthy cash flows and ability to pay off debt.
Proceeds from borrowings increased by 61% which was on account of the utilization of ₹120 crores of overdraft facility from the bank (vs Nil in FY22). Also, includes ₹ 73.5 crores (vs ₹68 crores in FY22 end) of the current maturity of long-term loans. Interest paid decreased by 41% on account of total borrowing decreasing by INR 8.5bn YoY (vs 7.06% in FY22). The company paid a dividend of ₹3/share (nearly a 50% increase to FY22). Financial Liabilities increased by 22%; mainly on account of other financial liabilities of ₹ 2.4bn (vs ₹167 mn in FY22) in DLF Info City Hyderabad, which is held for sale.

(all figures are in ₹ Crore)

	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Cash from Operating Activity	270	2,043	356	1,460	2,832	2,375
Cash from Investing Activity	-2,102	3	6,508	150	267	-461
Cash from Financing Activity	-232	875	-9,522	-2,184	-3,828	-2,013
Net Cash Flow	-2,064	2,921	-2,658	-573	-729	-98

Ratio Analysis

DIVIDEND PAYOUT RATIO

The company has increased the dividend payout percentage from 27% in FY19 to 49% in FY23. However, DLF has maintained a steady dividend payout ratio for the past 3 years indicating a healthy, maturing business. Since DLF has an enormous market capitalization of ₹ 1,46,675 Cr. and it's an old mature company it can pay a high percentage of the profit as dividends.

PROFIT MARGIN RATIO

The profit margin percentage of the company was 3.1% in FY20 and reached the bottom for the last 5 years due to the recession faced by the economy due to the impacts of the COVID-19 pandemic during that period the demand for real estate decreased. Owing to the steady demand in the real estate sector post covid, DLF attained profit margins of 35.7 % in FY23.

INVENTORY DAYS

The inventory turnover days were 1349 days and 1422 days in FY20 and FY21 respectively because it can be seen that the demand for real estate during those years was quite low because of the recessionary market trends due to the COVID-19 impact. Hence DLF was taking more days to finish its inventory. In contrast, in FY22 and FY23 the inventory turnover days decreased to 1284 days and 1241 days respectively as the demand for houses increased because of the rapid urbanization and overall increase in spending culture of the people which helped DLF to sell its inventory at a faster rate.

CREDITOR DAYS

In FY20 DLF had a creditor days ratio of 63 days during the COVID-19 pandemic period because during that time DLF was not undertaking any new projects and overall credits were lesser in general because the number of operations decreased so it was easier for them to pay off the creditors. Whereas in FY23 the creditor days ratio increased to 156 days because they gained a better state to negotiate the credit terms with their vendors as the number of projects increased significantly and the expenses which were avoidable during the COVID phase were no longer avoidable so they were taking a longer period to pay off their creditors.

DEBTOR DAYS

The debtor days ratio of DLF Limited is currently 35 days. No significant changes have been observed in the debtor days for the past 5 years; this is because the company has maintained the same payment terms for payment from debtors against the properties sold to them.

INTEREST COVERAGE RATIO

The interest coverage ratio of DLF was 0.7 times in FY20 but it is constantly increasing ever since and reached 4 times in FY23. This is because the profit margin percentage of the company is constantly growing in the past 5 years, due to which the company has gained a better position to pay off its interests.

DCF VALUATION ANALYSIS

METHODOLOGY

The following steps were undertaken in conducting the DCF analysis:

Step 1- We took the historic cash flow from operating activities and net capex for the past three years to derive free cash flows. Then, we took the average of the resultant free cash flow figure for these three years.

Step 2 - We proceeded with the calculation of the Weighted Average Cost of Capital (WACC). For the calculation of the cost of equity, we have used the Capital Asset Pricing Model (CAPM). The cost of debt was obtained by dividing the interest expense by the total of long-term debt and short-term debt.

Step 3 - Further, we projected the future free cash flow for the next ten years taking the average free cash flow obtained in step 1 as the base. The WACC obtained in Step 2 was used as the discount rate for arriving at the PV of the projected cash flows.

Step 4 - We also took a terminal growth rate for discounting perpetual free cash flow after the tenth year.

Step 5 - The summation of steps 3 and step 4 was taken to arrive at the total PV of future free cash flow which is also the Enterprise Value.

Step 6 - The resultant value of step 5 was used to arrive at the intrinsic value of the share. We have subtracted the Net Debt from Enterprise Value (refer to step 5) to arrive at equity value. The equity value is divided by the number of shares outstanding to arrive at the intrinsic value per share.

ASSUMPTIONS

The following assumptions were taken in preparing the DCF valuation model

- Based on the CRISIL credit rating of DLF loans of A1+ we have taken the Cost of Debt to be 12% which is the interest yield of the Edelweiss Housing Finance bond which has a similar rating and is also related to the same sector as DLF.
- The free cash flow growth rates have been taken based on the estimated growth rate of the real estate sector by the Content department of Xavier's Finance Community in their sectoral analysis of the real estate sector.
- The terminal growth rate is based on the projected growth rate of the Indian economy by Morgan Stanley for a similar period.
- We have taken 10 years as the forecast period because anything less may not be a sufficient period to base our case upon. Alternatively, a longer period may lead to illogical assumptions and biases in the rates.

SUMMARY

Intrinsic Value Band	
Share Price (INR)	**690.68**
Model Error leeway	**10%**
Lower Intrinsic value band	**621.6**
Upper Intrinsic value band	**759.8**

For detailed workings of the DCF valuation exercise, readers can be referred to the following link:
https://bit.ly/DLFDCFVALUATIONXFC

INVESTMENT THESIS

1. The luxury real estate sector is expected to grow at a CAGR of 9.4% reaching $54.3 billion by 2047. This makes DLF an attractive investment opportunity.

2. The company is expanding its foothold in other regions of the country except its prime market and entering developed markets like Mumbai. Its subsidiary DCCDL has been performing exceptionally well.

3. The cash flow analysis shows that the company has maintained a healthy cash flow and is in the condition to pay off debts without default and even earlier than time which is a good sign.

4. The Company has a significant investment in FDs which helps it in hedging the risks of a downcycle in the industry.

5. DLF's sales have seen a downtrend in the past three years due to reasons affecting the realty market like the pandemic, rising interest rates, and higher costs. However, the company's profits are likely to see an uptrend, as indicated by the TTM period, due to the rising cost of residential property and the changing economic scenario.

6. Investors should keep an eye out for the ongoing family feud and how it plays out in the future.

7. The company is facing charges of money laundering, bribing, and stock manipulation. The cases are still pending in court.

8. Over the past 5 years, the dividend payout ratio of DLF has constantly increased indicating high and steady profits for its shareholders.

9. DLF has delivered great returns to its investors with a 49% increase in its stock price over the last year.

10. The ROCE of DLF is least among its peers while its dividend yield is the highest among its peers.

11. Promoter holding has been constant over the last 12 quarters with just a minor decrease of 0.87% in the Sept quarter of FY23 which showcases promoter confidence.

12. Based on the Discounted Cash Flow (DCF) analysis, the estimated intrinsic value of one DLF Ltd. stock is ₹690.68. Compared to the market price of ₹608.4, the stock appears undervalued by 12%. This indicates potential for good returns and a great investment opportunity.

13. The stock had a resistance level at ₹415 level and had a breakout on 15th May 2023. The share price continued to increase and had a correction and formed another resistance at ₹517 level. After the breakout on the 7th of September and has been in continuous uptrend, making the stock a great investment opportunity.

(This data is updated till 17th Nov, 2023)

RISKS AND CHALLENGES

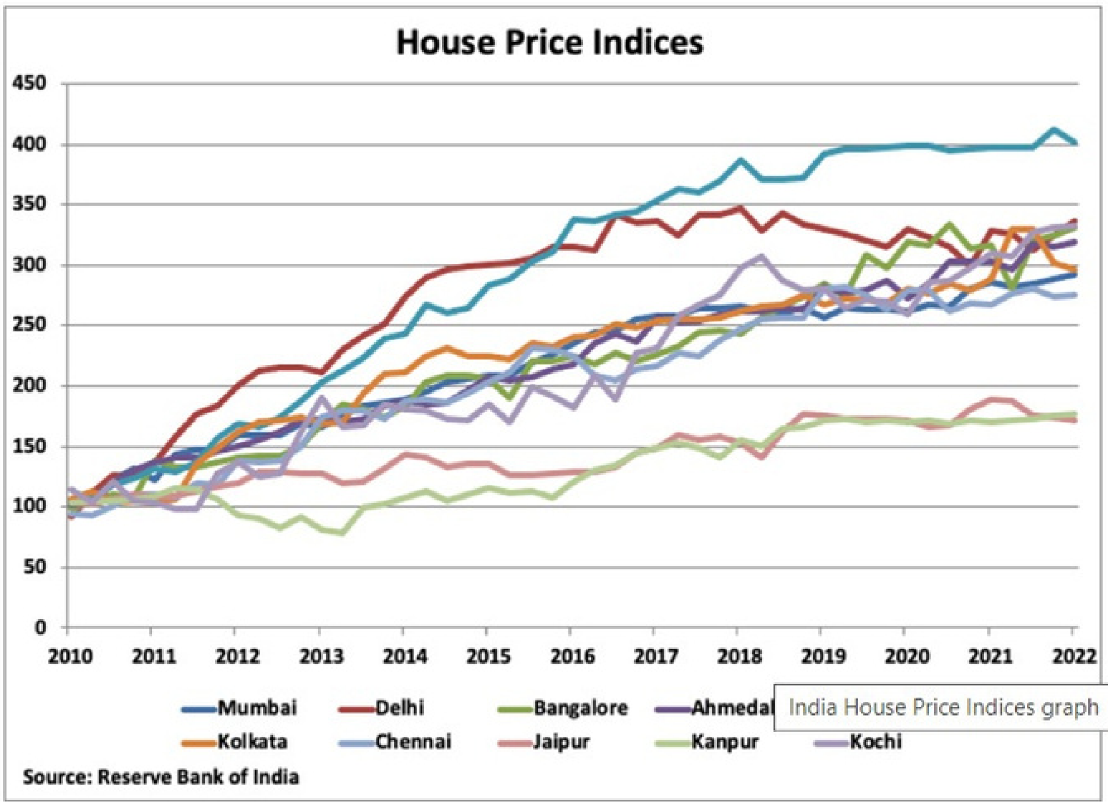
1. There is an ongoing family feud between the promoters of DLF Ltd where cases have been filed by Sita Chaudhary on her granddaughter and her husband Sunaina and Kushal Pal Singh. This might bring about instability about the ownership of the company and the company's interest might be overlooked.

2. There is an eminent recession in the US and Europe, therefore the companies from this region might not keep up with the rental spaces in India which accounts for 60% of all office spaces in India.

3. After the slowdown of COVID-19 the demand picked up again in FY 22-23 but supply has also been picking up and competitors might oversupply the market leading to price fall. Overall, the top seven cities are likely to witness ~129 msf of supply over the Q4CY23–25 period. This would translate into completions exceeding 50 msf annually, much higher than the peak demand witnessed in any year. (MSF- million square feet)

4. The real estate industry in India faces challenges due to the lingering effects of COVID-19, rising interest rates, and escalating raw material costs. The All India House Price Index has surged by almost 10 percent in the past three years, but the RBI's continuous 250 basis point hikes since May 2022 have impacted demand in major cities. This has discouraged potential homebuyers from availing loans and raised developers' cost of capital, posing a significant risk to the industry. Specifically for DLF Ltd., these challenges could impact their business growth and financial stability.

5. Liquidity measures the rate at which an asset can be purchased or sold on the market at a price that reflects its current value. In general, real estate assets have a reputation for being illiquid investments. In contrast, equities are typically regarded as the ultimate liquid investment. To convert any real estate asset to cash instantly the company may need to sell the asset at a lower price than the market prices to maintain the cash flow. Management of the DLF monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents based on expected cash flows. The Company takes into account the liquidity of the market in which the entity operates to overcome the challenges of liquidity faced by the real estate industry.



MANAGEMENT AND GOVERNANCE

Management Analysis

QUANTITATIVE

1. **Compensation vs Market-** The company's CEO's total compensation (1.29 Million USD) is in line with the market for similar-sized companies in the Indian real estate sector (1.2 Million USD).

2. **Compensation Vs Earnings-** DLF's management compensation is linked to the company's earnings, and it has increased in recent years as the company's earnings have grown. The compensation of DLF's top-level management has increased in recent years but at a slower rate than the company's earnings and revenue growth. This is a positive sign, as it indicates that the company is rewarding its management for performance.

3. **Experienced Management-** DLF's Management team is well experienced with an average tenure of 3.3 years in the company. The company's CEO has rich experience in the overall management of the business including projects, land and revenue management, statutory approvals and compliances, sales, marketing, and customer relationship management. Most of the members in DLF's management have also served as top management employees in other companies. The average age of a person in the Management Team is 56.5 years which also shows experienced people.

4. **Experienced Board-** DLF's directors are experienced and independent. The board includes several distinguished individuals with expertise in various fields. The average tenure of the board members is 9.4 years which builds confidence in the company.

The average age of board members is 70.5 years. This factor can be improved by including more young people on the board. Overall the board is also experienced and has people who have served the company for 10+ years which is a positive sign.

5. **Promoter Holding -** The promoter's share in DLF has decreased from 74.9% in 2012 to 74.08% in September 2023. This shows a constant holding percentage of the promoter with minor changes, showing that management believes in the company and therefore kept its holding almost the same.

QUALITATIVE

1. **Target Achievement**: DLF's management has been successful in delivering the results of the targets it set in its annual reports, investor presentations, or concalls and can achieve them in the said time.

2. **Annual reports:** In its annual reports, DLF sets targets for earnings, revenue, and other key financial metrics. The company has consistently met or exceeded these targets in recent years.

3. **Investor presentations**: In its investor presentations, DLF provides investors with an update on its strategic plan and financial targets. The company has a good track record of achieving the targets it sets in its investor presentations.

4. **Concalls:** In its concalls, DLF management answers questions from investors about the company's performance and outlook. The company is transparent and honest in its communication with investors.

5. **Overall assessment:** DLF has a good track record of achieving the targets it sets. The company's management is experienced and well-qualified. The company's board of directors is independent and supportive of the management team.

Corporate Governance Analysis

Corporate Governance Structure: DLF Ltd. has a well-defined corporate governance structure in place, which is aligned with the best practices of corporate governance in India. The company's board of directors is composed of six members, of which four are independent directors. The board is responsible for the overall governance of the company and oversees the management team.
In addition to the board of directors, DLF Ltd. also has several committees in place to assist the board in carrying out its responsibilities.

SPECIFIC ANALYSIS OF CORPORATE GOVERNANCE PARAMETERS

1. **Board of Directors:-** The board of directors of DLF Ltd. is composed of six members, of which four are independent directors who are experienced and qualified professionals with a strong track record in corporate governance. The board meets regularly to discuss the company's business and to make decisions on key strategic matters.

2. **Audit Committee:-** The audit committee of DLF Ltd. is composed of three members, of which two are independent directors. It is responsible for overseeing the company's financial reporting process, for ensuring that the company's internal controls are effective and regulary reviewing the company's financial statements to discuss any audit findings.

3. **Nominations Committee:-** The nominations committee of DLF Ltd. is composed of three members, of which two are independent directors. It is responsible for identifying and recommending candidates for election to the board of directors. It also reviews the performance of the board and makes recommendations for improvement.

4. **Remuneration Committee:-** The remuneration committee of DLF Ltd. is composed of three members, of which two are independent directors. It is responsible for determining the remuneration of the company's directors and senior management personnel. It also reviews the company's remuneration policies and practices.

5. **Corporate Social Responsibility (CSR) Committee:-** The CSR committee of DLF Ltd. is composed of three members, of which two are independent directors. It is responsible for overseeing the company's CSR activities and for ensuring that they are aligned with its business strategy.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	INDEPENDENT DIRECTORS
Mr. Rajiv Shah *(Chairman)*	Ms. Pia Singh	Mr. Ved Kumar Jain *(Lead Independent Director)*
Mr. Ashok Kumar Tyagi *(CEO and Full Time Director)*	Mr. G.S. TALWAR	Mr. Pramod Bhasin
Mr. Devinder Singh *(CEO and Full Time Director)*	Ms. Savitri Devi Singh	Mr. A.S. Minocha
	Ms. Anushka Singh	Mr. Vivek Mehra
		Ms. Priya Paul

RECENT DEVELOPMENTS

1. **Stock performance:** DLF has surged around 41% on a year-to-date basis. The share increased around 215% in 5 years and made a 5-year high of ₹568.40 on 13th October 2023.

2. **New Contracts:** DLF is set to launch 2 luxury housing projects in Gurugram worth ₹15000 crore. Additionally, the company is also launching a residential tower in its project at Moti Nagar, one in Trincity of Chandigarh and one in Mumbai this fiscal year. A sale of 1137 flats in Gurugram was also completed in around 3 days which had a total value of around ₹8000 crores.

3. **Re-entrance in Mumbai market:** DLF through its wholly owned arm Pegeen Builders & Developers will be investing ₹400 crore as equity to develop a project with 35 lakh sq ft saleable area in Mumbai in partnership with Trident group.

4. **Family Feud:** The 90-year-old Sita Chaudhry, wife of the founder of DLF group is in a legal battle with her granddaughter Sunaina Singh. Sita alleges share certificates and other documents are missing from her home safe. She also alleges that a significant portion of her family's wealth that lies unethically with her granddaughter Sunaina Singh be transferred back for a just distribution among all the heirs.

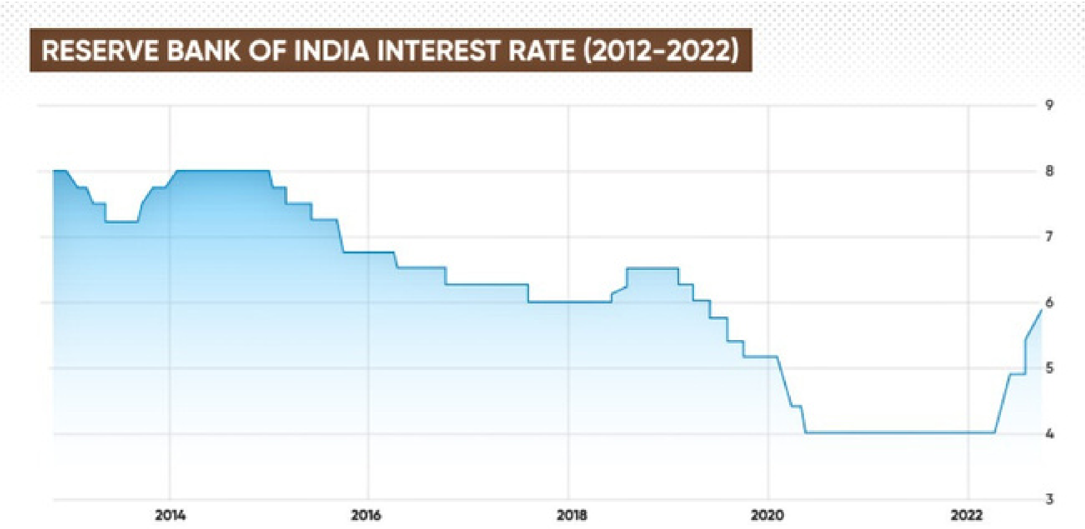
5. **Block deals:** The share price had tumbled after the DLF promoter group had sold shares worth ₹1316.2 crores at a 3 % discount to the CMP in multiple block deals. Kushal Pal Singh, the promoter of DLF Ltd along with Mallika Housing Company and Beverly Builders have divested their shares.

6. **Cases:** The Central Bureau of Investigation (CBI) has filed a case against DLF for allegedly bribing government officials to secure approvals for its projects. The case is still pending in court.

7. **Money laundering case:** The Enforcement Directorate (ED) has filed a case against DLF for allegedly violating money laundering laws. The ED has accused the company of laundering money through its overseas subsidiaries. The case is still pending in court.

8. **Market manipulation case:** The Securities and Exchange Board of India (SEBI) barred DLF and its promoters from the Indian securities market for three years for alleged market manipulation. The case is still pending in court.
In September 2023, the CBI filed a supplementary charge sheet in the bribery case. The charge sheet names several new accused, including former government officials and DLF employees. In October 2023, the ED filed a supplementary charge sheet in the money laundering case alleging that DLF laundered over INR 1,000 crore through its overseas subsidiaries. In October 2023, the SEBI upheld its ban on DLF and its promoters from the Indian securities market. The ban is set to expire in 2025.

9. Interest Rates: Rising interest rates have affected the sales in the market.



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GLOSSARY

- **REIT- REIT** stands for "Real Estate Investment Trust". A REIT is organized as a partnership, corporation, trust, or association that invests directly in real estate through the purchase of properties or by buying up mortgages. REITs issue shares that trade on the stock exchange and are bought and sold like ordinary stocks.

- **LEED (Leadership in Energy and Environmental Design**) is the world's most widely used green building rating system. LEED certification provides a framework for healthy, highly efficient, and cost-saving green buildings, which offer environmental, social and governance benefits.

- **TTM- Trailing 12 months (TTM)** is the term for the data from the past 12 consecutive months used for reporting financial figures. A company's trailing 12 months represents its financial performance for 12 months; it does not typically represent a fiscal-year ending period.

- **DCF- Discounted Cash Flow** or DCF is the method for estimating the current value of an investment by taking into account its future cash flows.

- **Market cycles** refer to trends or patterns that emerge during different markets or business environments. During a cycle, some securities or asset classes outperform others because their business models are aligned with conditions for growth.

- **Price to Earnings Multiple** is the ratio of the share price of a stock to its earnings per share (EPS). The PE ratio is one of the most popular valuation metrics of stocks. It indicates whether a stock at its current market price is expensive or cheap.