

Putting up a strong show

DLF delivered a steady performance in FY24 on a high base, with robust collections and operating cash flows, both of which were at record highs. It expects FY25E pre-sales to cross INR 170 bn, which will be led by launches in Gurugram and its re-entry in Mumbai (JV project with the Trident Group in Andheri West). The DCCDL portfolio is on a path of recovery and is expected to cross pre-Covid occupancy levels in the next 3-4 quarters. DLF with its prominent brand equity, favourable home market dynamics and superior execution skills is best placed to benefit from the sector upcycle. A strong (net-cash) balance sheet, consistently high EBITDA margin and robust cash flows give additional comfort. We assume coverage on DLF with a "BUY" rating and an SoTP-based Mar'25 TP of INR 1,000.

- Key beneficiary of consolidation and market share gains in Delhi-NCR:** The real estate industry saw substantial consolidation since FY17; in Delhi-NCR more than 70% of the existing players exited the business. In the last 3 years, there has been a cyclical recovery in the real estate sector, wherein pre-sales have recovered sharply but supply is still catching up, due to which the inventory levels have trended lower across cities. In Gurugram, the inventory levels are at c.16months. We estimate that DLF will be launching close to 30-32msf in the next 36-42 months, of which the major share (80%) will be in the Delhi-NCR market. We expect a good response to these launches and build in FY24-FY26E pre-sales CAGR of 21%.
- One of the largest Grade-A office portfolios with marquee assets:** DCCDL continues to be a steady annuity business with a potential of INR 60bn in rental income by FY27E (CAGR of 12%). In terms of area, it includes c.42msf completed area, 3.1msf of under-construction assets and 25msf of future developmental potential. We expect occupancies to move up to pre-Covid levels of 95%, as new developments should start at 90%+ occupancies (due to healthy pre-leasing), coupled with incremental leasing at existing assets. The DCCDL portfolio has a potential to achieve an annual FCF run-rate of INR 50bn by FY27E.
- Strong cash flow profile aided by receivables and higher pre-sales:** The development business is in god shape with: (1) completed residential inventory of INR 30bn as of 1QFY25 (2) historical project receivables of INR 234bn and (3) paid-up land banks of 192msf. DLF has planned launches of 11.6msf in FY25E, which includes three major launches in Gurugram: DLF Lux 5, DLF Privana Phase 3, and Sector 61. With pre-sales growing considerably over the last 3 years, we expect collections to grow at the same pace to reach INR 224bn in FY27E.
- Assume coverage with a "BUY", TP of INR 1,000:** We assume coverage on DLF with a "BUY" rating and an SoTP-based Mar'25 TP of INR 1,000 given its strong launch pipeline, healthy cash flows and favourable dynamics in its home market. Key risks: Delayed recovery in the commercial market, slowdown in pre-sales and dependence on a single micro-market.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	
Current Price Target (12M)	1,000
Upside/(Downside)	17.7%
Previous Price Target	
Change	NA

Key Data – DLFU IN

Current Market Price	INR850
Market cap (bn)	INR2,102.8/US\$25.1
Free Float	25%
Shares in issue (mn)	2,475.3
Diluted share (mn)	2,475.3
3-mon avg daily val (mn)	INR3,528.9/US\$42.1
52-week range	968/473
Sensex/Nifty	81,086/24,823
INR/US\$	83.9

Price Performance

%	1M	6M	12M
Absolute	5.0	-5.5	76.7
Relative*	5.3	-15.2	41.4

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	56,948	64,270	80,707	141,395	144,018
Sales Growth (%)	-0.4	12.9	25.6	75.2	1.9
EBITDA	17,259	21,236	25,989	46,299	48,661
EBITDA Margin (%)	30.3	33.0	32.2	32.7	33.8
Adjusted Net Profit	20,358	26,214	33,804	57,238	69,276
Diluted EPS (INR)	8.4	10.6	13.7	23.1	28.0
Diluted EPS Growth (%)	35.6	26.1	29.0	69.3	21.0
ROIC (%)	5.6	6.8	9.1	19.0	18.3
ROE (%)	5.5	6.8	8.3	13.1	14.2
P/E (x)	101.2	80.3	62.2	36.8	30.4
P/B (x)	5.5	5.3	5.1	4.6	4.1
EV/EBITDA (x)	123.6	100.6	80.2	44.4	42.3
Dividend Yield (%)	0.5	0.6	0.6	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 23/Aug/2024

JM Financial Research is also available on:
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