

ACCOUNTING & FINANCIAL STATEMENTS | CHALLENGER PROJECT



SECTOR: REAL ESTATE

Group 15

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DLF at a Glance

Business Model

Started in 1946, DLF (Delhi Land & Finance) Limited is the largest real estate company in India by Market Cap, Earnings and Revenue. Based out of Gurgaon, DLF Mainly Operates in four different verticals: **Home, Office, Retail and Hospitality.**

DLF Limited also has **4 main subsidiaries** in DCCDL, DLF Assets, DLF Power and DLF Home Developers, creating a strong in-house end-to-end solution and reducing supplier dependence.

DLF primarily splits its operations and financials into **two main segments:**

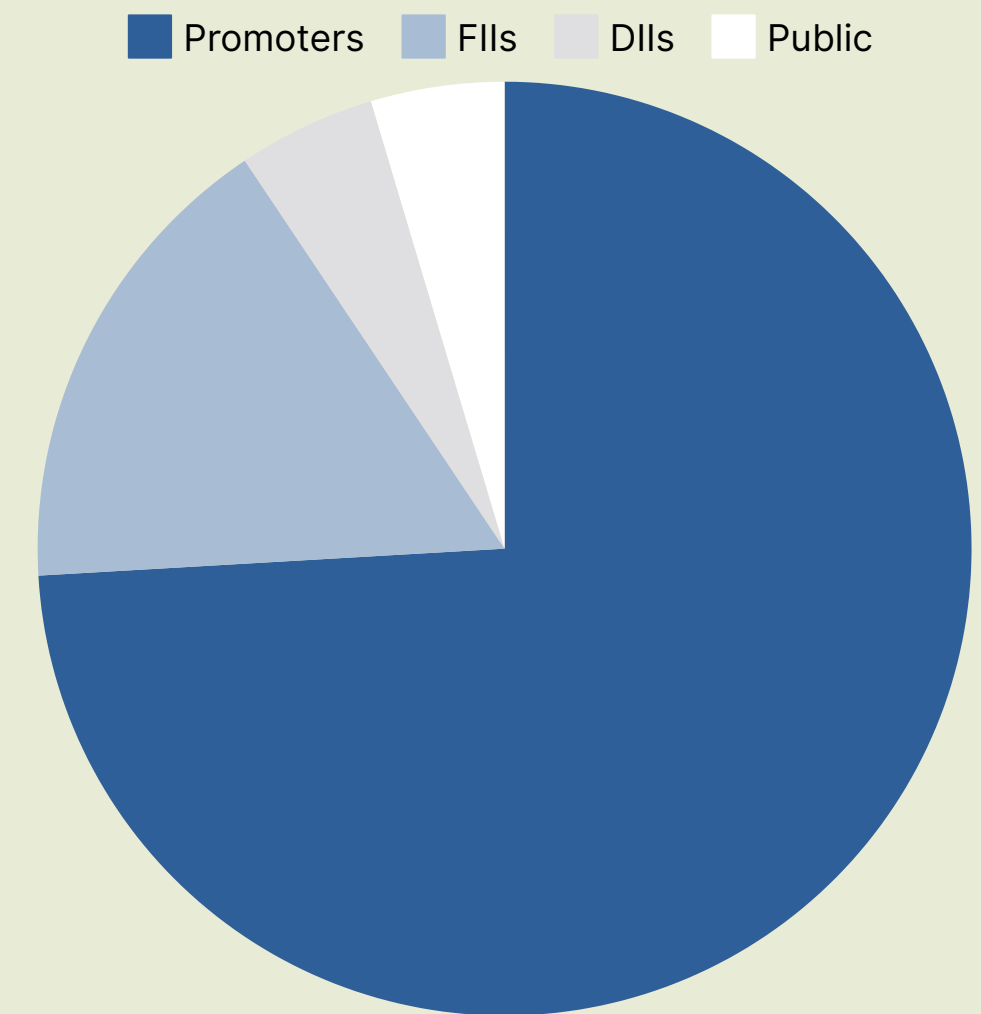
Development Business (31.5%):

- **Focuses on the development and sale of residential properties.**
- Demonstrated record performance across all parameters during the fiscal year, with significant new sales bookings.

Rental and Retail Business (69.5%):

- Comprises the leasing operations of the commercial properties.
- The recovery in the office segment is gradual, with improvements in occupancy levels and rental growth.
- The retail business within this segment continues its growth trajectory with high occupancy levels and increased revenue from rentals .
- **Delivered 20% YoY growth in rental and 57% YoY in Retail.**

Shareholding Pattern



- In the latest year, DLF's promoter holding experienced a slight reduction to 74.08%, possibly indicating a modest sell-down or dilution.
- Concurrently, the increase in FII holdings to 16.53% suggests robust foreign investor interest, potentially driven by favorable market perception and company performance.

DLF at a Glance- Key Observations



Record Performance

- Highest ever new sales bookings in the industry for a fiscal year: **₹15,058 crore**. YoY Growth 107%
- 73% drop in net debt **levels to the lowest ever**.
- **Hospitality division grew by 39%**



Key Projects

- Launched "The Arbour" in Sector-63, Gurugram; **pre-launch sales exceeded ₹8,000 crore**.
- Launched and sold out "The Grove" in DLF5, Gurugram; **sales exceeded ₹1,800 crore**.
- Launched DLF Valley Gardens in Chandigarh Tricity



Growing Sustainably

Included in the Dow Jones Sustainability Index in the Emerging Markets category for its sustainability initiatives and ESG practices for the past 3 years. It is the only real estate Company from India to be included in this Index.



Market Review

- Upgraded to 'AA/Stable' by CRISIL and ICRA. With DCCDL getting an AA rating
- DLF stock price witnesses strong demand, 100%+ up YoY



Financial Review

- Revenue dropped slightly by 0.3% YoY. Delhi NCR old projects reaching saturation and new projects are yet to realise but have strong order books. Expansion to Tier - II is expected to have a strong momentum.
- EBITDA: ₹2,043 crore (slight drop in margins to 34%) (Due to business scale-up)

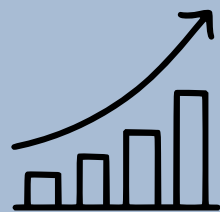


Future Outlook

- Strong demand in luxury segments with price appreciation tailwinds.
- Projected FY2025 **Sales Booking Growth: 15% YoY**.
- New Launch Pipeline: 32 million sq. ft with a **potential revenue of ₹79,000 crore** over the next 2-3 years, including major launches in Gurugram and other strategic locations.

Analyzing the Forces Shaping DLF's Business Environment

Comprehensive Industry Analysis



Market Growth & Trends

Industry momentum: The Indian real estate market reached a fresh high in 3QFY24 with presales of 310 mn sq.ft, indicating a positive market momentum.

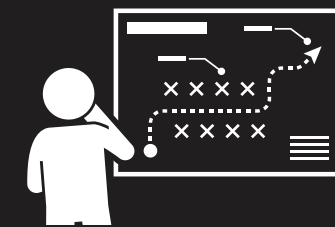
Regional Dynamics: Hyderabad leads with 53% YoY growth, followed by MMR at 28% YoY, Bengaluru at 19% YoY, and NCR at 12% YoY. DLF's significant presence in these regions positions it to capitalize on the growing demand.



Competitive Landscape

Market Position: DLF Limited is identified as a preferred pick in the market, with a strong reputation and diversified portfolio, including Gurugram, a region experiencing 11% YoY growth.

Strategic Initiatives: DLF's focus on premium and luxury projects, along with its ventures into mid-income and affordable housing segments, reflects its strategic adaptability to market demands.



Market Positioning & Strategy

Price & Absorption Trends: Tier 1 cities registered an 11% YoY and 2% QoQ price growth. DLF's premium offerings and balanced supply-demand equation enhance its market competitiveness.

Segmental Mix & Diversification: DLF offers luxury properties in Bengaluru and Gurugram, mid-income housing aligned with 'Housing for All', and diverse offerings in residential, commercial, and retail sectors. This diversification broadens its market reach and mitigates risks.



Management

| Points | Comments | Binary Result |
|---|---------------------------------------|---------------|
| Singh Family Stake(%) | 74.08% | 1 |
| Family stake trnd sice last 3 years | Decreased by 0.87% (very minor) | 0 |
| Stake % vs Votiing rights | 74.08% vs 74.08% | 1 |
| Is management comprised of many family members? | Yes | 1 |
| CEO remuneration as a % of profit | 0.47% | 1 |
| Related Party Transactions | Not Significant | 1 |
| Vested vs Allocated compensation and performance shares | Differs significantly | 0 |
| Any major changes in the management? | No | 0 |
| Is the business run by an experienced and professional CEO? | Yes | 1 |
| How much Bonosus were given to the CEO | Majority of his compensation (75.90%) | 0 |

PORTER'S FIVE FORCES



Medium

Threat of New Entrants

- Entry barriers due to high capital investment are significant. However, relaxed FDI norms and government policies can attract more foreign players.
- New entrants may find it challenging to compete with established players like DLF that have a wide-ranging portfolio and brand recognition.



Medium

Bargaining Power of Buyers

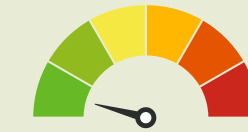
- The increase in urban population and HNI individuals indicates strong demand, further buyers have a range of choices and enhancing their bargaining power.
- Governmental schemes like 'Housing for All' and affordable rental housing complexes may further empower buyers, possibly affecting premium segments less.



High

Competitive Rivals

- DLF faces intense competition from other pan-India real estate developers. With market consolidation, few large developers dominate the scene.
- DLF maintains a strong position with substantial market share, especially in premium segments like luxury homes, where sales increased by 130% in H1 2023.



Low

Threat of Substitues

- In the real estate sector, the threat of substitutes could come from rental markets, which are being boosted by schemes for affordable rental housing.
- Alternatives to traditional commercial spaces, like flexible workspaces or home offices, could pose a threat to DLF's commercial real estate segment.



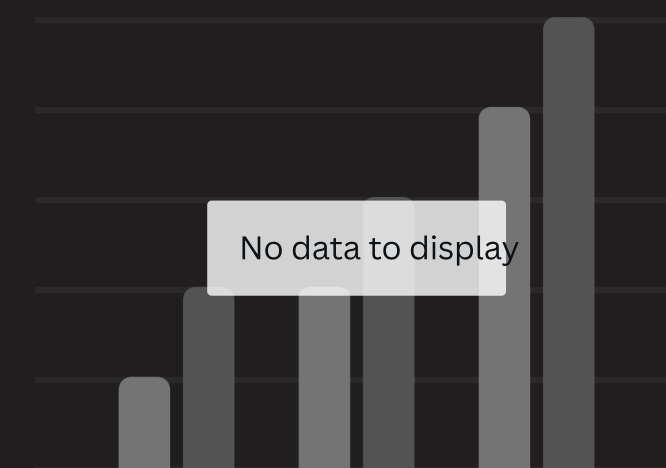
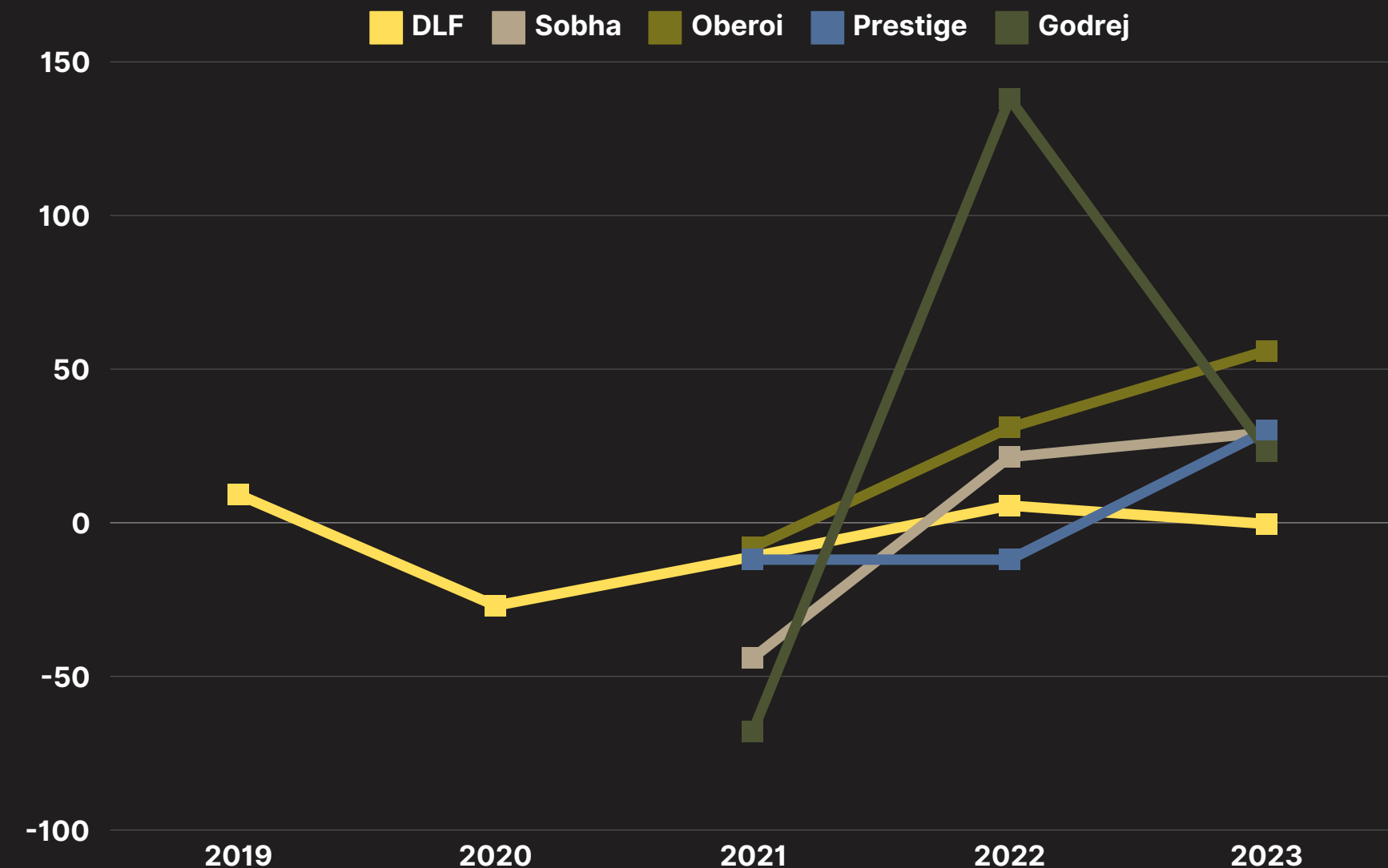
Medium

Bargaining Power of Suppliers

- DLF's backward integration strategy, including an in-house architecture studio and manufacturing facilities, reduces the bargaining power of suppliers.
- The increasing need for high-quality, sustainable materials may provide suppliers with some leverage over real estate developers. Rising Raw Material Prices may give an advantage to suppliers.

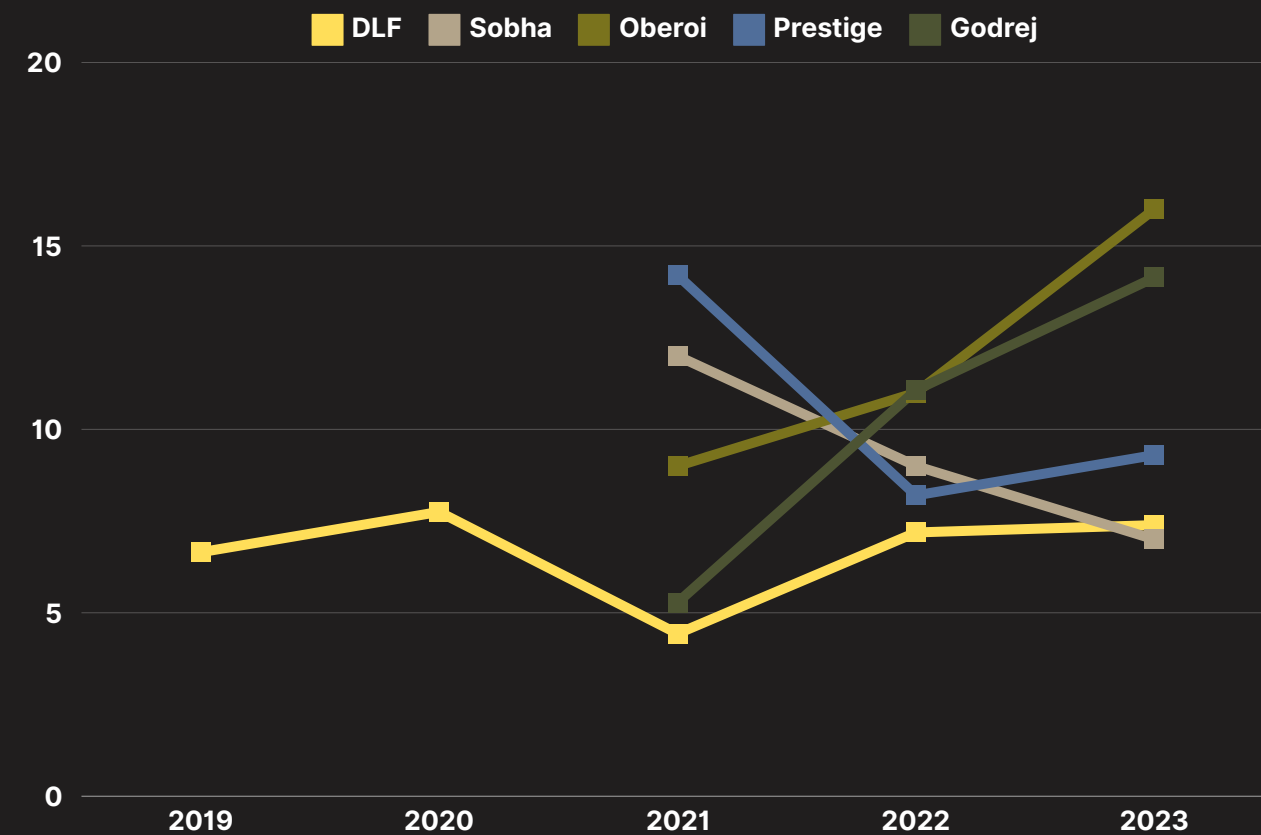
REVENUE GROWTH

- From 2019 to 2020 DLF faced a drop in revenue growth this was due to Covid-19. The entire real estate industry faced around a 23% drop. After that year the company recovered speedily in the next 2 years.
- In FY 2023 revenue growth saw a drop of 0.39%. The reason for this is the revenue recognition in real estate companies. In the current financial years the company had 8 projects going on- the revenue of these projects will be realised in the following year.
- Moving forward our analysis points towards their revenue growth. The two main reasons for which are:
 1. **Order Book**- The company has an order book of 15000 Cr.
 2. Revenue Recognition of the **projects** on FY23.
 3. DLF is **expanding** beyond Delhi NCR (where it has a majority stake) to **tier 2 cities** (Chandigarh and Goa). This move gives them a greater opportunity as these cities will be behaving a growing real estate sector in the coming years.

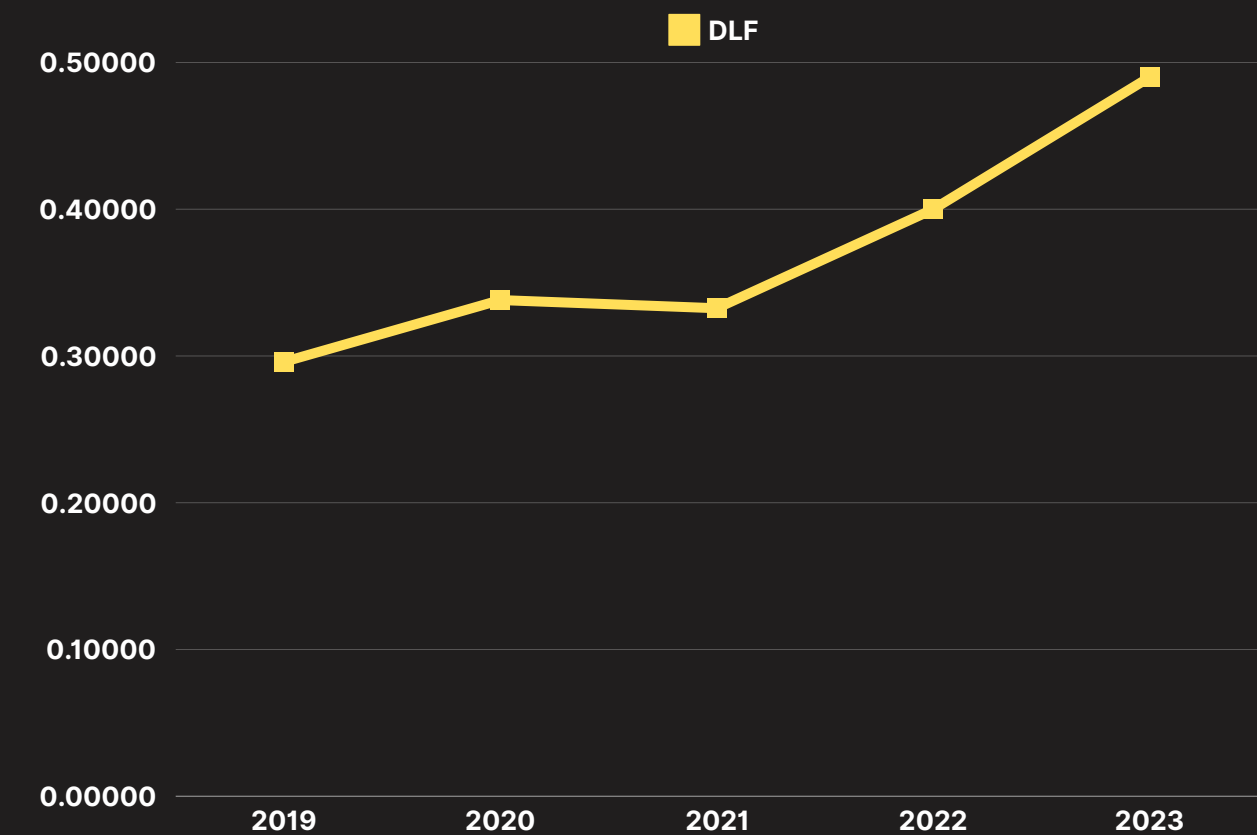


ROIC TREND ANALYSIS AND EFFICIENCY

RETURN ON INVESTED CAPITAL



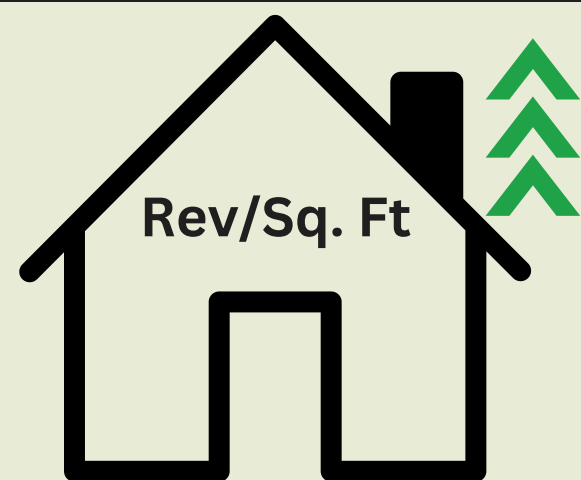
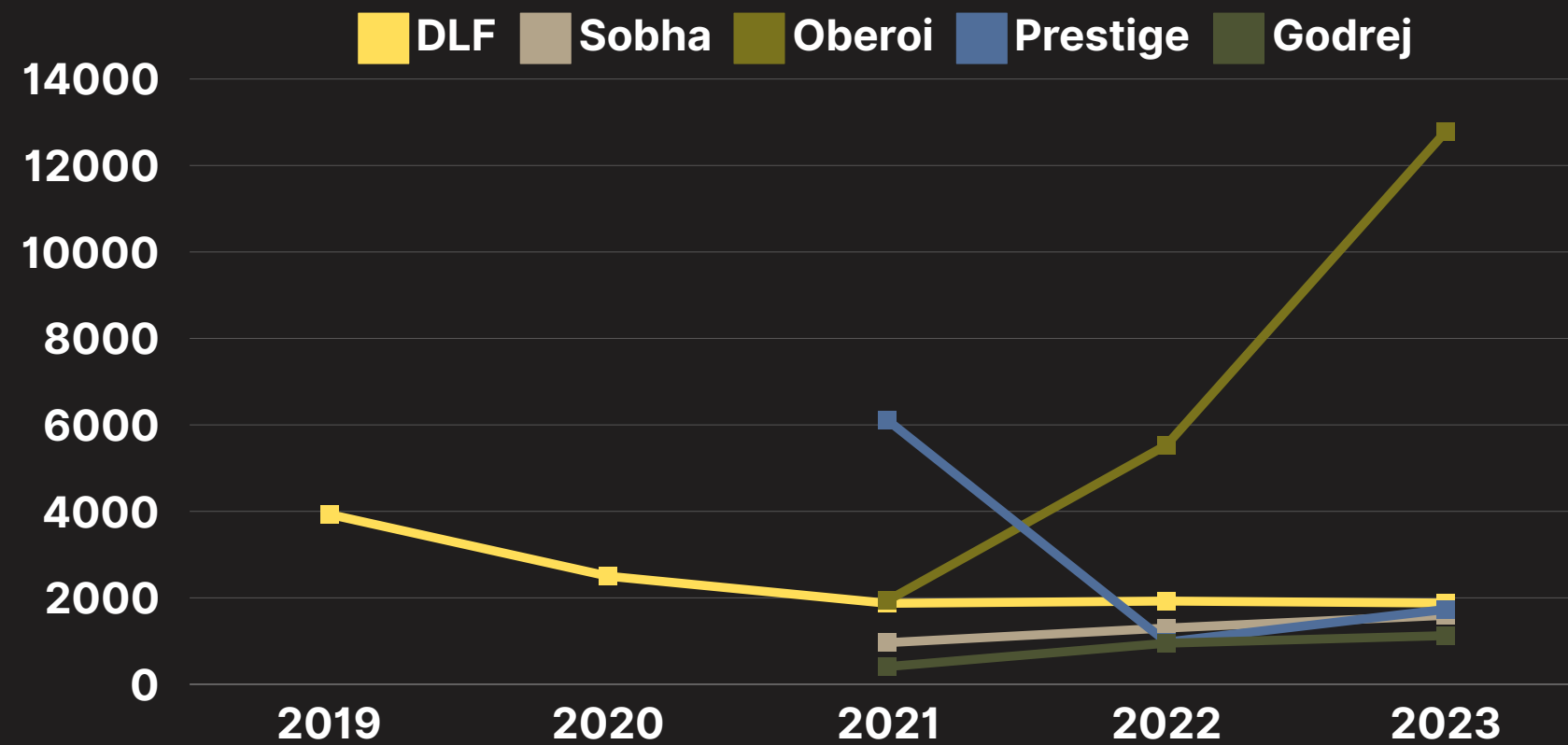
ASSET EFFICIENCY



- DLF's ROIC fell during the **Covid years** due to a 23.9% sector contraction. DLF rebounded **post-Covid** where its NOPAT increased rapidly causing an increasing trend in ROIC.
- DLF's ROIC has been showing an overall increasing trend throughout the years. This increase in ROIC is due to the increase in NOPAT, despite of fall of in the revenue in FY 23 there has been an increase because of minimised costs. The company has focussed a shift in strategy where they are building on the exisisting land instead of acquiring new which has led to minimised costs.
- Looking at its **competitive landscape**, while Sobha's ROIC dropped, Godrej and Oberoi are achieving higher ROIC, indicating effective management and market leveraging. Apart from Godrej and Oberoi the other 2 competitors show a declining trend as compared to DLF's increasing trend.

KEY OPERATING BENCHMARKS

Revenue per Sq. ft.

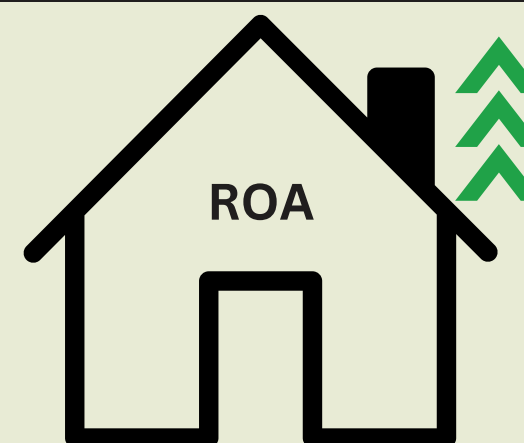
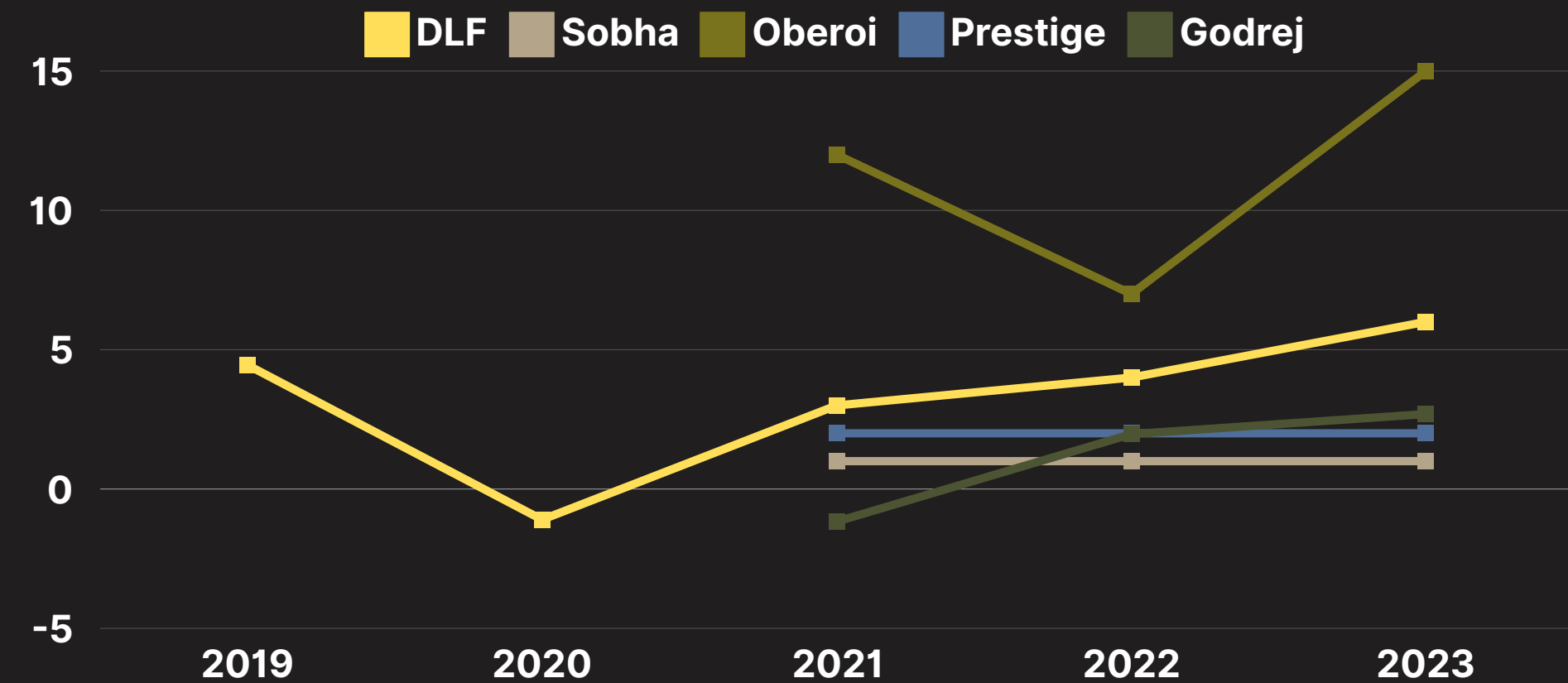


Rev/Sq. Ft

1. Oberoi
2. **DLF**
3. Prestige
4. Sobha
5. Godrej

- Revenue per sq. ft is an important operating benchmark as it gives an idea of how much the company is making per square feet.
- Oberoi has a much higher revenue per sq. ft a possible reason for this is that Oberoi is mostly centred in Mumbai which has higher real estate prices as compared to Delhi.

ROA



ROA

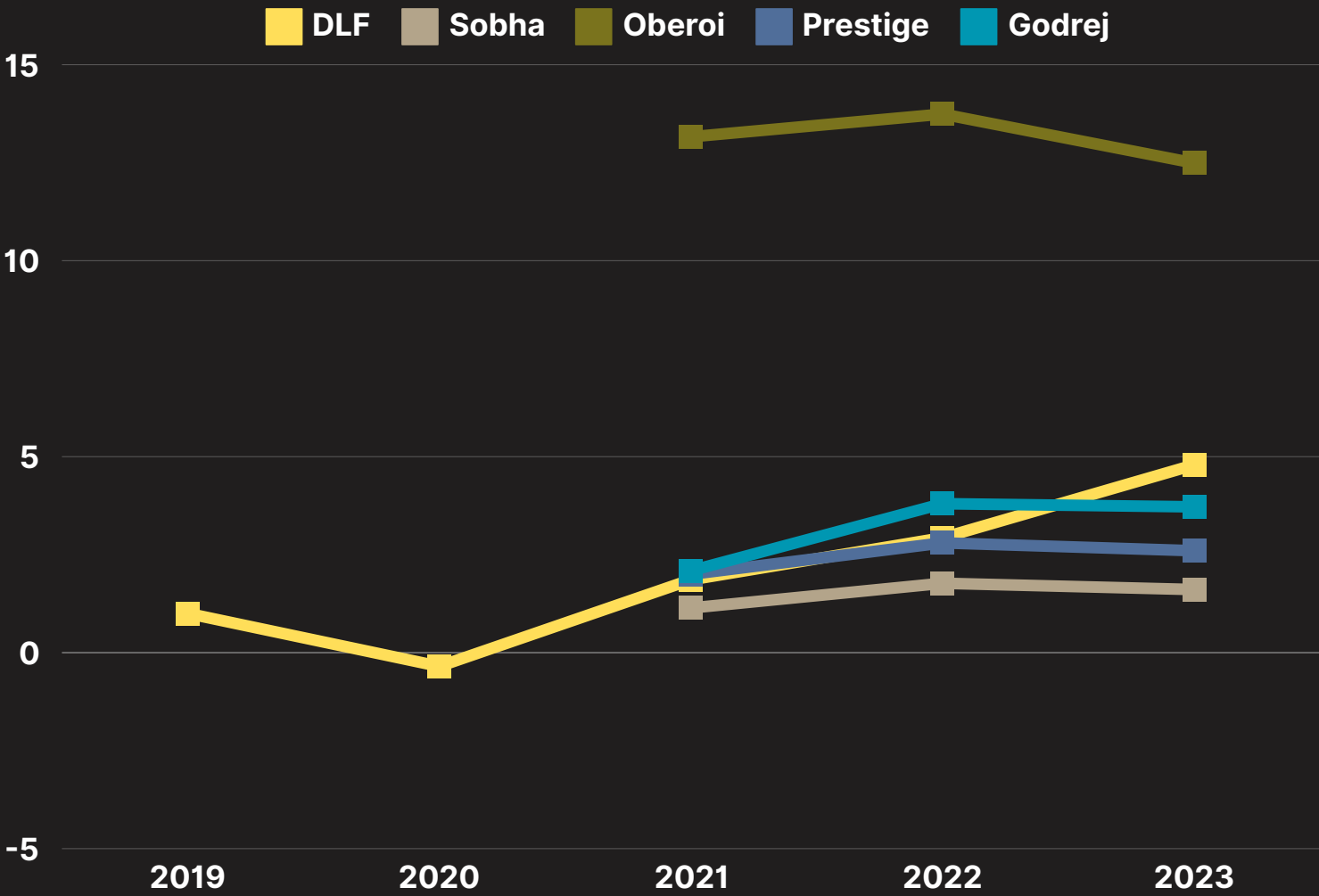
1. Oberoi
2. **DLF**
3. Prestige
4. Godrej
5. Sobha

- Now moving onto return of assets. Post Covid DLF has shown an increasing trend in return on assets pointing towards company's efficiency in managing its assets which is a key metric in real estate.
- It has a trend higher than all its competitors except Oberoi which does not depict a steady trend.

Debt and Solvency Metrics

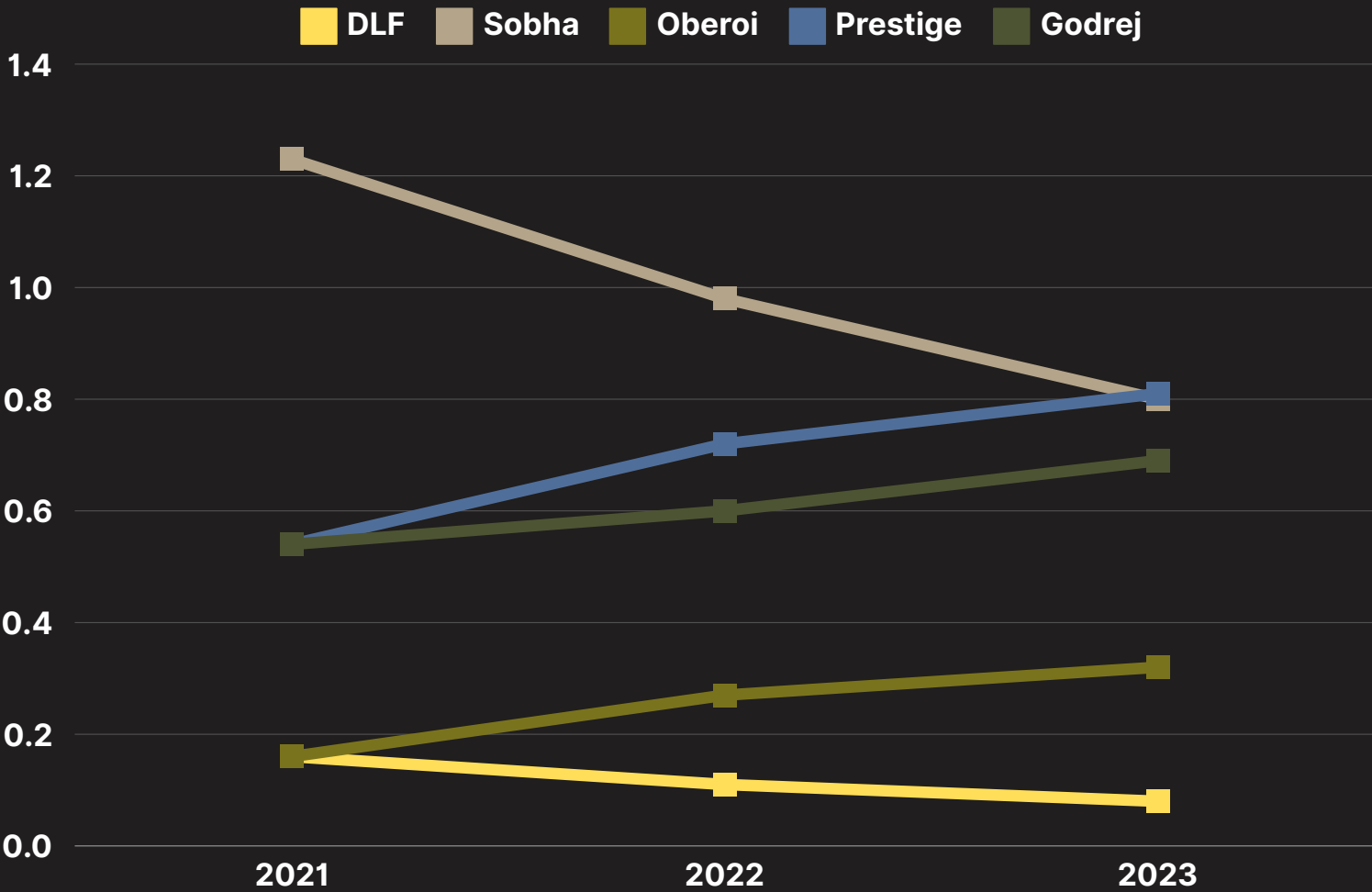
EBITDA/ Interest Expense

Among the top 5 real estate companies in the sector, DLF has the 2nd highest EBITDA/Interest expense. Further, DLF is showing an increasing trend. There is great focus on debt reduction which has reduced financial costs by 37%.



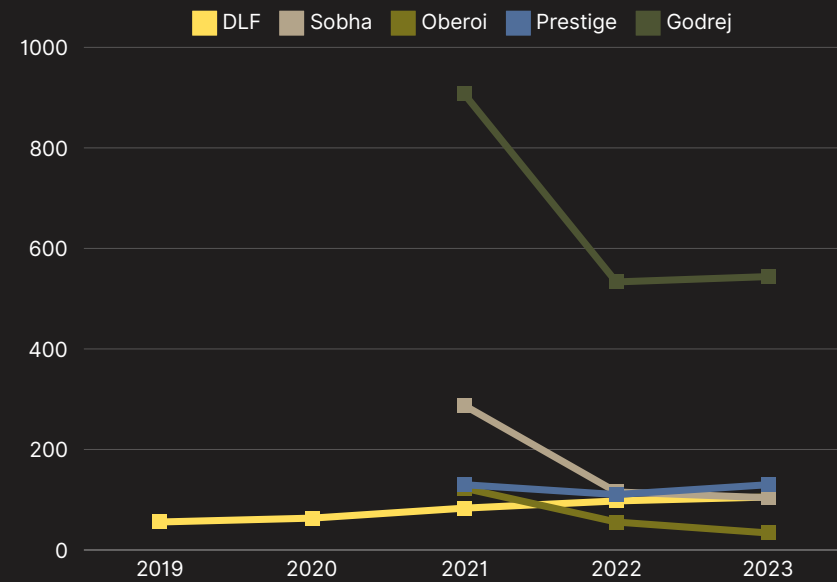
Debt/Equity Ratio

DLF leads among its peers with a downward trend in its debt-to-equity ratio, reflecting a low leverage and strong financial position in the real estate sector. Where as, 3 out of the other 4 companies have seen a rise in this ratio. DLF aims to reach net-debt zero.



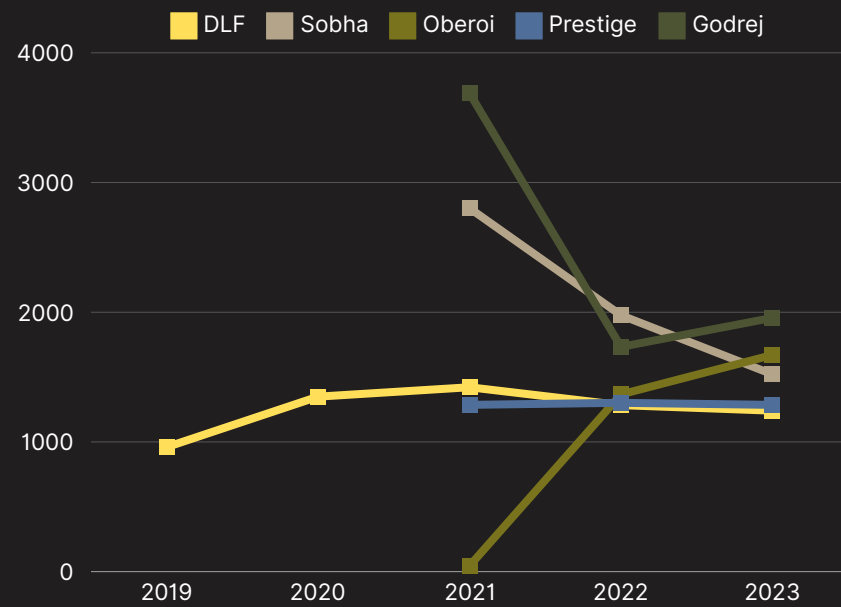
CASH CYCLE AND OPERATIONAL EFFICIENCY

Payable Days



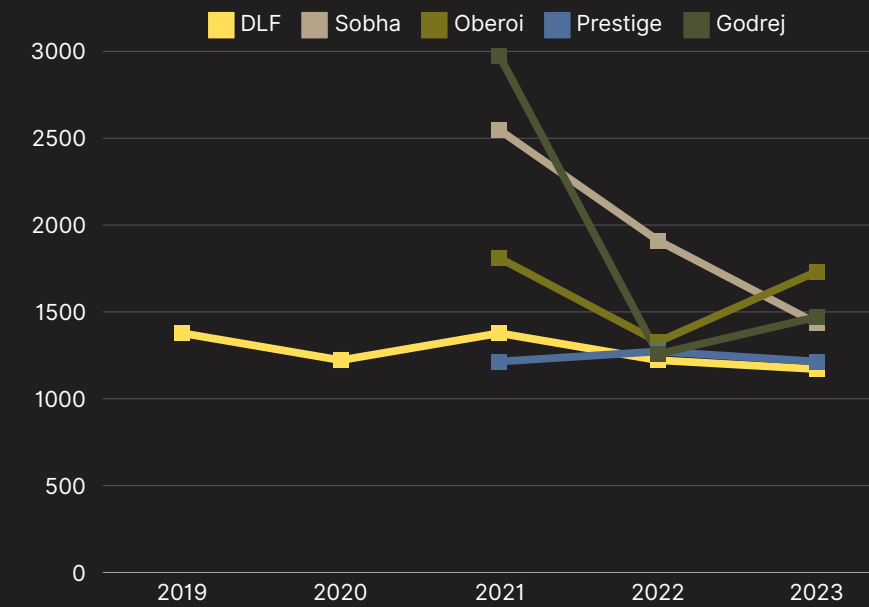
- DLF's accounts payable days are on an upward trend, which could be interpreted as a positive sign of leveraging extended payment terms.
- As for its competitors companies they are facing a downward trend except Prestige. This shows that it has healthy relationships with suppliers.

Inventory Days



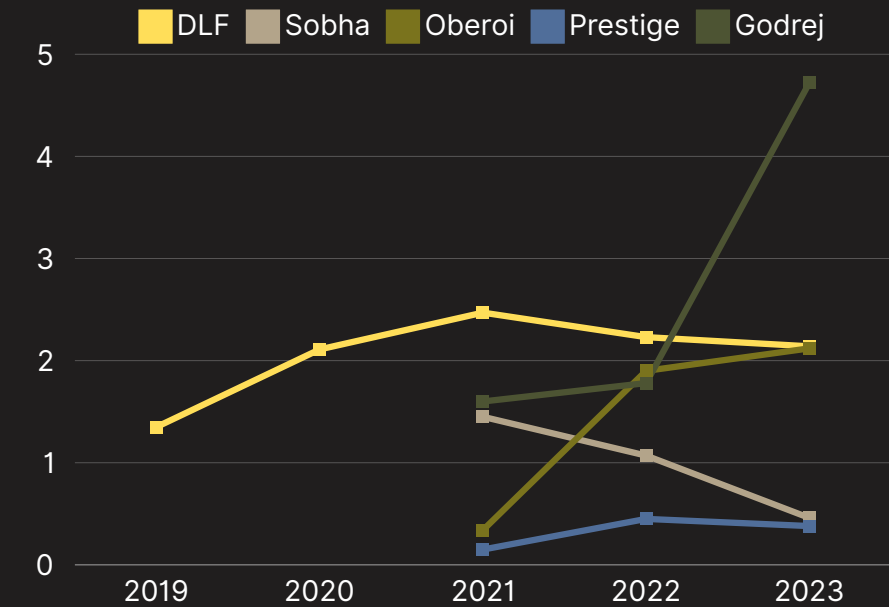
- DLF has shown a decline in inventory achieving sector's shortest inventory turnover period in the entire sector
- Robust housing demand in Gurugram contributed to reducing inventory months

Cash Cycle



- Since 2019, DLF shows a stable cash cycle in real estate, with minor dips in 2022 and 2023 amid economic challenges. While DLF maintained competitiveness, peers like Sobha and Oberoi experienced fluctuating cash cycles. Sobha's focus on luxury and premium projects, leading to longer sales cycles, and Oberoi's high-end property developments affect their cash turnover.

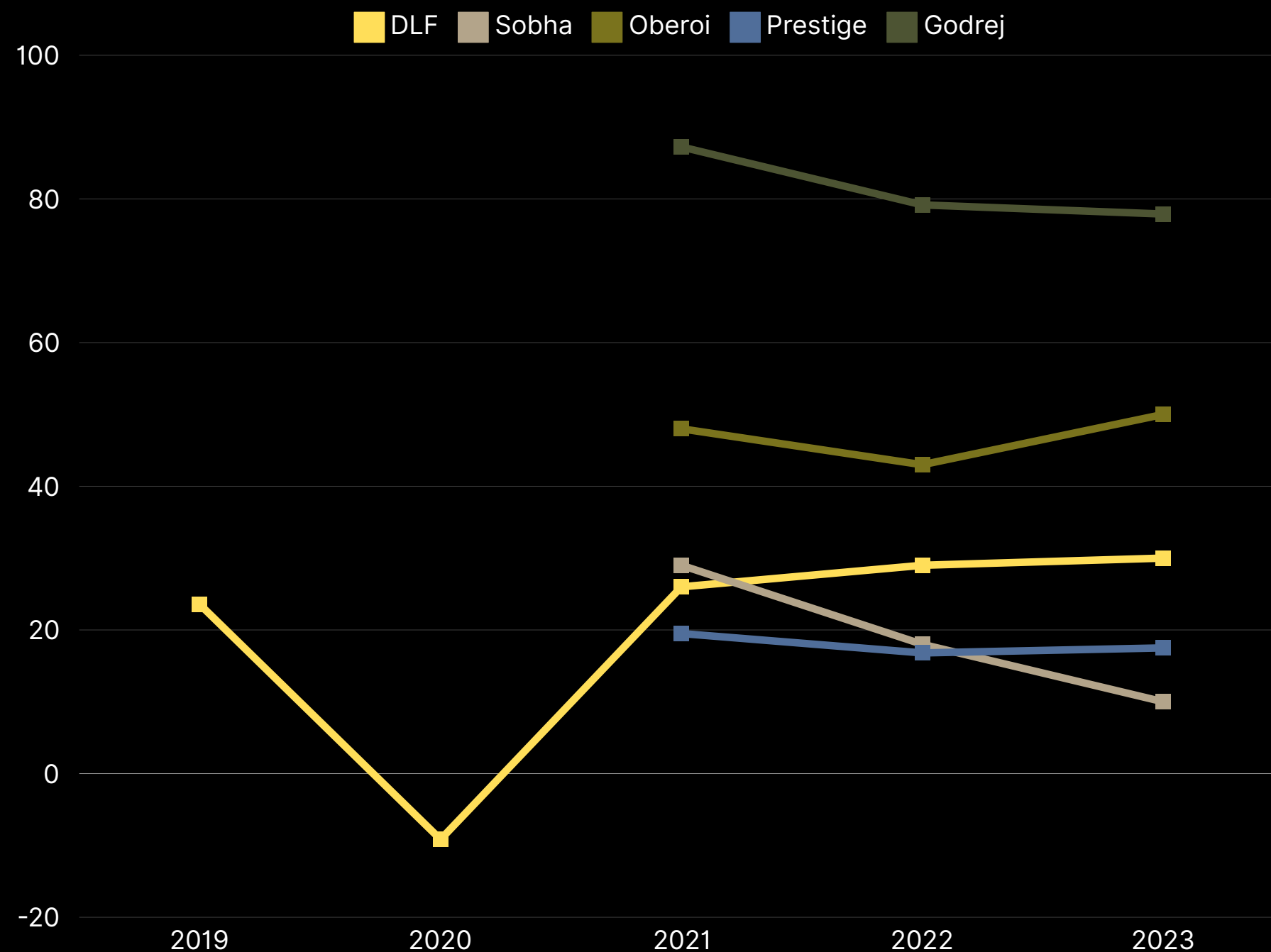
OWC as % of Sales



- DLF's OWC % of sales is positive, which means it needs funding. But when compared with peers, DLF its OWC as a % of sales is steadily declining which indicates that the company is reducing its cash tied up in operation and is becoming more liquid than its competitors. Shobha is exhibiting a downward trend compared to its counterparts

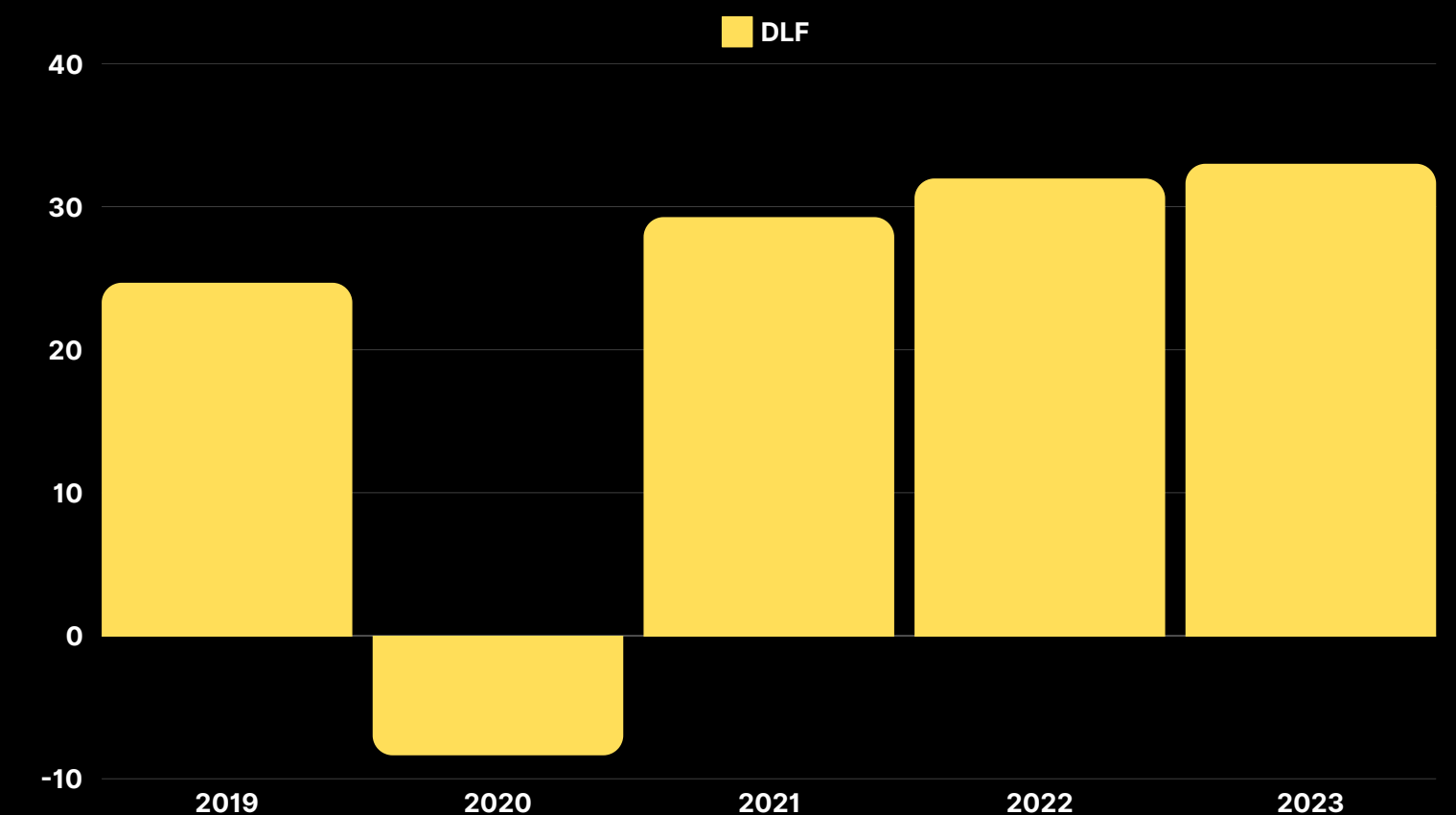
PROFITABILITY MARGIN

EBITDA Margin



- DLF's EBITDA Growth:** Post-pandemic, DLF's EBITDA margin has risen due to lower raw material and finance costs.
- Godrej's Decline:** Despite an initial high EBIT margin, Godrej now shows a downward trend.
- Oberoi and Sobha:** Both exhibit declining EBITDA margins

EBITDA Margin(DLF)



Red Flags

QUALITATIVE

Market Concentration Risk

Reliance on Delhi-NCR exposes to regional economic shifts and regulatory changes, impacting operations and financial health.

Execution and Operational Risks

Ambitious project launches pose challenges; delays or quality issues could harm reputation and financial returns.

Regulatory and Compliance Risks

Changes in real estate regulations could lead to fines, delays, or halts, impacting profitability.

Interest Rate Sensitivity

Interest rate changes can reduce buyer affordability, affecting sales volumes and straining cash flows.



QUANTITATIVE

Inventory Management

Inventory level has decreased to 17 months from 23 months, indicating potential market overheating or unsustainable price escalation.

High Valuation Multiples

DLF's P/E ratio for FY25E is 83.5, much higher than peers like Oberoi Realty at 21.4, suggesting possible overvaluation.

Debt Levels and Financial Leverage

Large scale of upcoming projects indicates significant capital requirements, potentially leading to increased financial risk due to high debt levels.

Sales Growth Consistency

Inconsistent growth or failure to meet projections can lead to sharp stock price corrections and reduced investor confidence.



THANK YOU

Group 15

| | |
|---------------|-------------|
| Arshia Kohli | Mohit Joshi |
| Devashish Vij | Simar Singh |
| Devesh Bajaj | Viom Kapur |