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31st January 2023

The General Manager Dept. of Corporate Services **BSE Limited** P.J. Tower, Dalal Street, Mumbai – 400 001	The Vice-President **National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra(E), Mumbai – 400 051

Sub: Transcript of Earnings Call

Dear Sir/ Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings Call.

Requisite details regarding the Earnings Call are as under:

S. No.	Particulars	Details
1	Date of Earnings Call	27th January 2023
2	List of management attendees	- Mr. Ashok Kumar Tyagi – Chief Executive Officer & Whole-time Director, DLF Limited - Mr. Vivek Anand – Group Chief Financial Officer, DLF Limited - Mr. Sriram Khattar – Managing Director, Rental Business
3	Web-link of the Transcript	https://www.dlf.in/qu-result/Q3FY23_Earnings_Call_Transcript.pdf

This is for your kind information and record please.

Thanking you,

Yours faithfully,
For **DLF Limited**
Ram Parkash Punjani
Digitally signed by Ram Parkash Punjani
Date: 2023.01.31 17:01:42 +05'30'

R. P. Punjani
Company Secretary

Encl.: As above

For Stock Exchange's clarifications, please contact:
Mr. R. P. Punjani - 09810655115/ punjani-rp@dlf.in

"DLF Limited Q3 FY23 Earnings Conference Call"

January 27, 2023

MANAGEMENT: **MR. ASHOK KUMAR TYAGI – CHIEF EXECUTIVE OFFICER & WHOLE-TIME DIRECTOR– DLF LIMITED**
MR. VIVEK ANAND – GROUP CHIEF FINANCIAL OFFICER – DLF LIMITED
MR. SRIRAM KHATTAR – MANAGING DIRECTOR -RENTAL BUSINESS

Moderator: Ladies and gentlemen, good day and welcome to DLF Limited Q3 FY23 Earnings Conference Call. We have with us on the call Mr. Ashok Kumar Tyagi, CEO DLF Limited; Mr. Vivek Anand, Group CFO; Mr. Sriram Khattar, MD Rental Business. As a reminder, all participant's lines will be in the listen only mode there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vivek Anand.

Vivek Anand: Thank you very much. Good afternoon to all of you and welcome to DLF Limited Quarter 3 Financial Year 23 Earnings Webcast. Let me start by wishing you all and your families a very happy new year and thank you for joining us today. We continue to witness strong business momentum across all business parameters. I'll start with financial highlights for quarter three financial year 23, DLF limited consolidated results. Consolidated revenue stood at rupees INR 1,560 crores. Gross margins improved at 59% supported by a higher contribution of Camellias,

The EBITDA stood at INR 542 crores with margins at 35%. Net profit at INR 515 crores reflecting year-on-year increase of 35%. This was primarily due to higher JV profit and a continued reduction in the finance cost. Our Residential business delivered a strong performance and clocked one of the highest quarterly new sales booking of INR 2,507 crores, reflecting year-on-year growth of 24%.

Cumulative new sales for 9 months financial year '23 stands at INR 6,599 crores, reflecting a year-on-year growth of 45%. We continue to see a well-diversified sales mix. Happy to share that 89% of our quarterly sales was contributed by new products. We expect this trend to continue as we scale up our new launches.

Our luxury offering - The Grove DLF 5, Gurugram stands completely sold out, reaffirming demand for quality offerings at established locations. Sales booking during the quarter for the product stood at INR 1,570 crores. The second phase of our recently launched product, The Valley Gardens in Panchkula echoed customers' confidence towards our product offerings in that geography, clocking in sales booking of INR 540 crores during the quarter. We remain enthusiastic about the housing industry intrinsic growth potential, which continues to be supported by a resilient economy. Our focus remains on creating customer-centric products that provide a distinctive living experience with best-in-class amenities across our established ecosystems.

I'll move to cash now. Operating cash flow for the quarter stood at INR 633 crores. In light of the Hyderabad asset development being pushed back, we have repaid the outstanding capex advance of INR 582 crores to DCCDL group out of the surplus cash flows during the quarter. The transaction was largely cash neutral at the group level. Consequently, our net debt decreased to INR 2,091 crores at the end of the quarter, a reduction of INR 51 crores from the previous quarter.

I'll now move to the financial highlights for quarter 3 financial year '23, DLF Cyber City Developers Limited consolidated results. The office portfolio continued its gradual part to recovery. Strong momentum across the retail business continues. Rental income grew to INR 1,003 crores, year-on-year growth of 15%. Consolidated revenue at INR 1,363 crores as compared to INR 1,176 crores last year, reflecting a 16% year-on-year growth.

EBITDA stood at INR 1,061 crores. Year-on-year growth of 16%. Net profit at INR 358 crores, reflecting a year-on-year growth of 27%. Occupiers attendance across the portfolio continues to inch upwards with gradual recovery across the office segment. While global headwind continues to persist leading to a challenging environment, we expect demand for quality office assets at established locations should continue to garner interest of larger occupiers.

New developments across DLF Downtown, Gurugram and Chennai remains on track, planning for our upcoming retail destination Mall of India at Gurugram is in advanced stages. The retail business continues to exhibit healthy growth. Consumption trends continue to reflect sustained momentum with sales delivering consistent growth leading to a healthy retail business outlook.

We remain well positioned to achieve our business objectives, which are strongly supported by continued housing demand, quality offerings and a healthy balance sheet, right? Thank you for listening to me and we can now open the floor for the Q&A session. Thank you.

Moderator: We have our first question from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar: I just had a few questions, sir. First is on this DCCDL settlement. So is there anything left? Or are we now fully done on this? And as a consequence of this, should the interest cost on the P&L now further come down? So that was -- I can follow them together and you could respond.

Vivek Anand: We'll answer all of them together, yes.

Saurabh Kumar: Okay. The second one was, sir, essentially on this mortgage rates. So we are now seeing a 9% trend and probably will go to 9.25%. So have you seen any clear trends of reduction in footfalls in terms of site visits? The third is essentially around this, the golf course extension project. I am seeing value of INR 7,500 crores for this project. So I just want to know what is the average price you are assuming for – through the cycle for this project?

And lastly, on DCCDL, does the rental now include Midtown -- the Downtown, sorry, at that INR 1,060 crores EBITDA through Downtown. And also, if you can talk about the progression at DLF Downtown?

Vivek Anand: Saurabh, thanks for your questions. Let me take it one by one. So this DCCDL settlement of INR 582 crores, which is a cash settlement during the quarter, this completes all settlements. So there is no outstanding or capex advance in our books as on 31st December 2022. I think that was the first question. That's right. I'll move on. On the mortgage rates, your question was that are we...

Saurabh Kumar: Interest costs will go down due to the settlement now because you were paying some interest on this, too.

Vivek Anand: Yes, yes, yes, we were paying some interest on that. So that interest has been -- we made this settlement in October. So post October, there is no interest on that. So you will see that reduction thereafter. Yes? Okay? And on mortgage rates, yes, they are now close to 9% and in some cases, upwards of 9%. So your question is, are we seeing an impact on the footfalls, right? So at this point in time, if you really look at our sales numbers, I think the kind of response we've got in our -- in the last quarter, especially the two launches we had, right? We are not seeing any significant impact of that as of now.

The third one was the sectors, 63 group housing. So what we have indicated to you will be the launch value of INR 8,000 crores during this quarter, right? So that's coming largely from two projects. One is sector 93 and 63. And at this point in time, I think we are still in the process of finalizing the launch, including the pricing. But the total square feet I can give you, right, which is the launch, is around 4.4 million square feet for Sector 63. And last part was DCCDL rental of INR 1,003 crores. Does it include Downtown 2 and 3 rental? The answer is yes.

Sriram Khattar: So we received the occupation certificate for Downtown 2 and 3 end of June 22. And thereafter, the tenants took possession and started the fit-outs. So the first rental started trickling in from November. So what we had in the December quarter is a very small portion. This will be much higher in the March '23 quarter and will then sort of stabilize in Q1 of next year to its completeness. For your information, it's -- the buildings are -- building 2 and 3 are completely leased and the rental will be for the entire 1.65 million, except to the extent of one or two floors, which are on hard options with a multinational company.

Saurabh Kumar: Okay. So we are -- I mean, you've already achieved INR 4,200 crores exit NOI this year?

Sriram Khattar: Saurabh going to explain that, right, asking that we should be able to meet INR 4,200 crores this quarter.

Saurabh Kumar: But next year, we should then hit that 45, 46 mark pretty easily?

Ashok KumarTyagi: Yes, I would tend to agree. Saurabh, sorry, only one more clarification on the DCCDL advance, you are correct. The advances as of today are completely settled. However, as you are aware, the basic -- the genesis of this advance was that DAL has an onward arrangement for over 15 years with DLF, where DLF constructs the SEZ buildings and transfers to DAL. However, to ensure that DLF is not out of pocket, DAL traditionally advances that money to DLF. So right now since Hyderabad was delayed, this outstanding advance has been refunded back completely. As and when a new building comes back on the anvil, maybe a fresh advance would be taken from DCCDL.

Saurabh Kumar: And just one thing. 6 million square feet of DAL is still left to be delivered by DLF to DAL?

Ashok Kumar Tyagi: Yes, I don't have the exact number, but yes, between Silokhera, between Hyderabad, yes, you're right, approximately, yes.

Moderator: We have our next question from the line of Kunal from CLSA.

Kunal Lakhan: My first question was on the pre-leasing that we have done in Phase 2 Downtown, Gurgaon 0.7 million square feet. Can you give us some color on the nature of the tenant and the demand here?

Sriram Khattar: Yes. So this is what we call Block 4 in Downtown Gurgaon. This is a building of about a little in excess of 2 million square feet. 700,000 has been leased to -- I can give you a flavor to two large global capability centers in the banking, financial services, insurance. There are two the bigger ones, and then there are two, three smaller deals.

Kunal Lakhan: Sure. In the same breath, just wanted to check with you, Mr. Khattar, on how is the demand situation considering the global layoffs and the bad news that is happening globally. What's the indication that your existing occupiers as well as the new occupiers that you would be in touch with? What's the indication that you're getting there?

Sriram Khattar: So the -- I can give you the indications. The indications were getting to be quite strong in the month of October. But thereafter, with this US recession and continuous hardening of interest rates has dampened the sentiment marginally. And it has dampened the sentiment in terms of the decision makers wanting to defer their decision by a few weeks or months before the situation in the US becomes clearer.

However, India's cost competitiveness in terms of its highly qualified English-speaking engineers on one side and global quality real estate at very competitive price will always be a compelling reason for international companies to keep coming to India. And that trend continues.

We also see that the movement is to developers who are able to provide Grade A++ places not only Grade A spaces. And provide spaces which are scalable for the potential tenants in the future. In addition, the international tenants, when they first come, they don't start with the physical structure of the place or the financials -- the commercials, they start with the areas of safety, sustainability, wellness, infrastructure and what we have done to ensure that their employees are much more comfortable.

The fifth and the last trend, which I personally find quite heartening is this whole work from home is slowly coming to an end. Now whilst hybrid will happen, but this leverage, which the -- at least in the IT-ITeS sector the employees had on working from home, it's now being looked upon rather unfavourably by the large tenants who are asking their employees to come back, albeit in the hybrid mode. Now this augurs well for our offices business going forward.

Kunal Lakhan: How about the physical attendance in this quarter?

Sriram Khattar: The attendance varied between various IT parks, but just to give you a flavour, we are at about 60% attendance in Cyber City, Gurgaon -- 60% - 65%. And in Chennai, we are at about 90% and Hyderabad is around 30-odd percent.

Kunal Lakhan: Sure, sure. Okay. And my second question was on this quarter's sales about INR 2,200 crores, you had some new products. If you can break it down between projects, I understand INR 1,500 crores would have come from The Grove. And what would be the contribution from Panchkula and what came from the rest?

Vivek Anand: Yes. So Kunal, so you're right. So Grove is INR 1,570 crores. Valley Gardens, Panchkula is INR 540 crores, and there are others which are independent floors, which is INR 120 crores. That's broadly the construct.

Moderator: We have a next question from the line of Mohit Agrawal from IIFL.

Mohit Agrawal: So a couple of questions. So first is on the cash flows. Your current construction spend annually is about INR 1,000 crores, INR 1,200 crores against a correction of above INR 5,000 crores run rate. So I'm assuming next year, we move up on the collections run rate, considering over the last 5 -- 2 years, you've been doing more than INR 5,000 crores. So what kind of increase in construction cost do you see? Is it going to be proportionate? So broadly, are your operating cash flow margins going to be similar in the range of around 45%?

Vivek Anand: Okay. Yes. Thanks, Mohit. So you're right. Let me just start with the collections first. So in the first 9 months, we've collected INR 3,722 crores. So on a full year basis, you are right, we'll be collecting upwards of INR 5,000 crores, right? And that's almost an increase of 20% versus last year. Now moving on to the construction. So first 9 months, we've spent INR 974 crores to be precise, including capex. And on a full year basis, we expect that this number will be close to INR 1,400 crores this year, right?

The other part of your question was what is our estimate for next year. So our collections, hopefully, I think by the time we exit this year, our collections will be close to INR 1,500 crores a quarter. So we should be able to sustain that next year. And our construction outflow for next year as we are scaling up will be somewhere close to INR 1,800 crores.

Mohit Agrawal: Okay. And this includes the capex as well?

Vivek Anand: That's right.

Mohit Agrawal: On the rental asset as well? Yes.

Vivek Anand: Right. INR 1,400 crores this year going up to INR 1,800 crores / INR 1,900 crores next year.

Mohit Agrawal: Okay. Sure. My second question is on getting a little bit clarity on the launches based on the data shared in the presentation. So you're supposed to launch about 3 million square feet in the fourth quarter '23, which includes sector 63 2 million square feet.

And could you clarify what is the 0.8 million square feet of premium value homes? And also, if you could elaborate a bit on next year launches of premium value homes of about 4.4 million square feet and also the luxury housing of 3 million? And does it include any of Phase 5 launches?

Vivek Anand: So let me start with quarter 4. So quarter 4, your first question was on 0.8 million, what we are planning to launch. This is sector 93 Garden City Enclave independent floor. So that's something which we are planning to launch during this quarter. So we are in advance stage of getting the approvals.

Then what is there as 2 million in luxury housing, that's group housing, the 63 and that's a total of 4.4 million square feet. Of which, we are considering 2 million to be launched this quarter and the balance, hopefully, next financial year, right? So that completes quarter 4.

The next year, yes, there are a lot of launches which we have planned across geographies and across segments. So at this point in time, I will say that the number is 9 million, but I can broadly indicate to you that, yes, we are looking at launching in one group housing in South, one in DLF 5, but more details we will be able to share when we come back to you in May after the annual results.

Mohit Agrawal: Okay. And is there a Phase 5 launch in '24 planned?

Vivek Anand: That's what I said. All those details, we'll be able to share, right, sometime in May. So we are working on it. At this point in time, I think I can only say these are indicative numbers, but we'll be able to confirm to you in May.

Mohit Agrawal: Okay, sure. I just have one more question. On the Midtown project, what is the plan there? We've not seen you releasing inventory for the last 2 quarters. So if you could share your thoughts there.

Vivek Anand: Yes, that's as per plan. So as of now, what I can say is that structure is ready. So out of the total potential sales value of INR 4,500 crores, INR 2,600 crores has been sold. So the structure is ready as we speak. So now we are in the stage of really giving the finishing to the building, and that's expected -- that's going to take some time. So possibly at this point in time, the way we see it is that we will be bringing that remaining inventory of close to INR 1,900 crores sometime in the market, middle of next year.

Moderator: We have our next question from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Sir, what's holding back pre-leasing of 1 million square feet at Cyber City and roughly 1.5 million square feet of SEZ excluding Silokhera?

Sriram Khattar: Sorry, pre-leasing, I don't think we are doing any new projects in...

Sameer Baisiwala: No, no. I mean leasing, sir. It's the vacant area that I'm talking about. 1 million Cyber City and 1.5 million SEZ.

Sriram Khattar: Yes. If you see the vacancy numbers have been consistently coming down since April and what I have been given to understand that our vacancies are much lower than that of our competitors and peer group. The vacancies are a little higher in the SEZs for reason which you are well aware of, which is the DESH bill or the amendment to the SEZ, which is taking a little more time than we had anticipated.

But I don't think -- we've now come down to single digits, roughly in the -- in Cyber City. And Silokhera, there is a premium problem, which you are aware of in terms of a Supreme Court case where the vacancy is about 32%, 33%, giving an overall portfolio vacancy of about 10.2%.

Ashok Kumar Tyagi: So if you recall Sameer ji, the vacancy levels have risen to 15% plus at the peak of COVID. They are declining gradually quarter-on-quarter. And now they are at about 10%, as Sriram said, and hopefully, we'll continue seeing a decline in the future quarters here.

Sameer Baisiwala: Okay. Great. I guess what I'm also asking is, what's the walk-through versus this year's exit rental and the exit rental in fiscal '24? I can see Downtown Chennai as one driver. Are there any other important items that will drive this growth?

Sriram Khattar: So the rentals of FY '24, the growth in rentals will be one, based on the growth of the existing rentals, which is traditionally what it is for the existing portfolio, plus a full income for the 1.7 million in Downtown 2 and 3 in Gurgaon and a marginal inflow of the rentals of Downtown 1 and 2 in Chennai because please recall by the time we get the OC, which is likely to be later middle of this calendar year, and then the larger tenants who come and do their fit-outs and by the time they start paying rents, I don't think they will be before the first quarter of the next calendar year, which will be the last quarter. But then in the following year, the rental for Chennai will come in full bloom. And in the year after that, the rental for the 2 million Downtown 4 will also commence.

Sameer Baisiwala: Okay. Very clear, sir. And just on the borrowing cost for DCCDL, how much increase have you seen so far and how much is left? If you can just talk about that.

Sriram Khattar: Yes. So I was also quite intrigued to see in this quarter that our interest cost has been constant compared to Q3 of last year, and the borrowings have been constant. And when we went into a little bit of a deep dive, I realize that the interest cost was pretty high in the first 2 quarters of the last year, and then it started dipping and then it started picking up.

Our exit interest cost as of this quarter is 7.85%, 7.86% and I personally don't see the interest rates going up beyond maybe 25 basis points further with the current control on inflation that we have, and thereafter, stabilize and start probably looking at coming down later part of this year.

So in my view, interest rates other than 25 basis points would have peaked. And I also say that we've done a reasonably good job in ensuring that we are very competitive when we borrow. And therefore, the interest rates -- the hikes that have been taken in the repo rates, et cetera, the rate of increase of our interest rates is far lower than that.

Sameer Baisiwala: Okay. No, that's good to hear. If there's only 25 bps left, so that would be a pretty good outcome. And one final question. DLF has roughly 2.2 million square feet of rental assets like Kolkata

SEZ and Chanakyapuri Mall, etcetera. So what's the thinking over here? You want to keep all of this? Or you want to monetize some point in time in future?

Ashok Kumar Tyagi: So Sameer, obviously, I mean, there's no intent to monetize it on a stand-alone basis. At some stage, as and when there is an eventual capital solution around the entire Cyber City piece, if it makes sense, some of these assets could flow into that. But that's again, something for the future.

Right now, we are focusing on sort of, while it's being managed by a common platform, which is Mr. Khattar's platform. The ownership is still separate between Cyber City and DLF. But at some situations it could be integrated, but I think it's still speculate right now.

Moderator: We have our next question from the line of Pritesh Sheth from Motilal Oswal.

Pritesh Sheth: First is on -- again, on Midtown, just to follow up from previous participants. So the release of, I think, the Tower D will happen sometime in first half of this year, as you said. In that sense, do we think that the second phase of 1 Midtown probably might not get launched in FY '24?

Ashok Kumar Tyagi: Yes, FY '24, I don't think it will be launched in all fairness. Also, frankly, we have a fairly rich launch pipeline. So I don't think we want to crowd any further by having the Midtown -- I mean the next phase of the Midtown project being launched. But as mentioned by Vivek mentioned by the way, that sometime in the middle of this year, we should hopefully have the resident inventory of Midtown, it'll be released for launching.

Pritesh Sheth: Sure. Got it. I mean the launch was still reflected in our presentation as FY '24. Just wanted to clarify that, thanks for the clarification.

Vivek Anand: Yes. So Pritesh, you are right. And that's the reason I didn't comment on the launches for '23, '24. What I clarified is when we come back to you with annual results, we will give you more details for our launches for next financial year. And you are right, this 2 million of residential JV – central delhi, this will undergo a change.

Pritesh Sheth: Sure. Got it. And one on Downtown Gurgaon, our occupancy has dropped from previous quarter to this one, from 98%, 99% to 93% right now. And even with rent that is reflected in our presentation, it was last quarter around INR 136-odd per square feet. Now it's showing INR 120. So just wanted a clarification on that. I mean why we saw a drop in occupancy -- I mean, drop in occupancy and drop in rentals as well.

Sriram Khattar: I don't think there is a drop, but we will come back to you with this. We will answer it on Monday for you.

Vivek Anand: We've noted this, Pritesh.

Moderator: We have our next question from the line of Puneet Gulati from HSBC.

Puneet Gulati: My first question is on Panchkula. That seems to be doing quite well. You are selling INR 500 crores each quarter now for the last two quarters. What kind of potential do you see there? And how deep is that market?

Ashok Kumar Tyagi: So it's an intriguing question, in a sense that we ourselves have been frankly very pleasantly surprised by the depth that Panchkula has demonstrated. As you may or may not be aware, some of this inventory was actually a slow moving -- I mean, plotted inventory with us for a very long time.

And frankly, bounce back has been fairly spectacular. We obviously have some further inventory, am I right Vivek, in Panchkula, which we'll hopefully continue selling. Eventual market size, I think its still -- I think it will take some time for us to fully fathom that.

Vivek Anand: But just to give you some -- Puneet, right, the total project size is 2.2 million square feet in Panchkula what we own, of which the inventory what we've released in Phase 1 and Phase 2 is 1.4 million square feet. And I can share, we got a very good response of which, out of 1.4 -- 1.3 million square feet has been sold and at our sales value of almost close to INR 1,100 crores, and we've realized INR 8,400 a square feet. And the balance inventory, right, hopefully, should get released in early part of next financial year and hopefully, should get sold.

Puneet Gulati: Yes. So can you give some colour on who or what kind of buyers are these? Are they investors, end users? And the realization also seems to be quite good and surprisingly as well.

Ashok Kumar Tyagi: The realization is good. It's about INR 8,000 plus per square feet in that sense. Ticket size is also almost running to INR 3 crores plus. So a lot of them are who belong to that place. I mean this question about investor and end users is a very confusion one always because obviously, for many of them who are buying, it may be a second house that they are buying, not necessarily their first house.

But they're not -- I'm sure they're not buying only for speculative purposes. There are a lot of retired government officers, retired military officers who belong to that area who are looking at a nice sort of enclave to eventually settle down. I think it's a mix of all of those. But to your first point, the depth has surprised us on the positive.

Puneet Gulati: It's also not main Panchkula as I understand, it's slightly off Panchkula as well in some sense, isn't it?

Ashok Kumar Tyagi: Panchkula is a city of small distances.

Vivek Anand: No, but this is right on the river.

Ashok Kumar Tyagi: Actually locationally, this is actually better than the main Panchkula.What we would normally call the main Panchkula area. From the river it has a great view of the Kasauli hills. It's actually very nice.

Puneet Gulati: Understood. Got it. Got it. My second is, if you can give some comment on when should we see the time line of completion for Phase 2, balance capex left and the Downtown Chennai balance capex?

Sriram Khattar: So Downtown Gurgaon is a huge development. It's about 12 million square feet. Out of which, 1.7, which is Downtown 2 and 3 is already completed, leased out and it is now behind us, capitalized in the books. Downtown 4 of 2 million is under construction. So that takes it to 3.7 million, leaving about 8-odd million, of which, 3 million is most likely the retail destination mall and the balance about 5-odd million will be offices. Our planning for...

Puneet Gulati: 2 million square feet, yes, sorry.

Sriram Khattar: So our planning for the mall is at a very advanced stage. Now whether it ultimately comes out to be 2.7 million, 2.5 million, 3 million is really what the architects come out with. And since this is a multiuse integrated development, the planning is much more integrated and has taken a little longer than what we had anticipated, but we are coming to the end of the cycle for the planning of this.

Puneet Gulati: Okay. So for the 2 million square feet Phase 2 for Downtown, the fourth block, what is the balance capex and time line for completion?

Sriram Khattar: So there, we are planning to be -- have the OC readiness by the quarter 2 of FY '24 -- FY '25.

Puneet Gulati: FY '25. Okay. And capex to complete?

Sriram Khattar: Capex is a standard. It's about, I think, about INR 700 crores, INR 750-odd crores. Balance capex.

Puneet Gulati: Right…

Ashok Kumar Tyagi: I mean in the Cyber City business, unlike DLF business, capex is a continuous stream in that sense, actually, the day capex stops, it's really death, frankly. This way of Downtown will end, by that time, hopefully, the malls would have begun, by that time the first part of the next 5 million square feet we will begin. So Downturn will continue to be hopefully a significant consumer of capex for the next 5 to 6 years.

Puneet Gulati: I understand. But for the Chennai Downtown, 3.3, which is under development, what is the time line there? And the balance there?

Sriram Khattar: We will be ready for the OC in the next quarter.

Puneet Gulati: Okay. And substantial money is spent already, I presume. Right?

Sriram Khattar: Yes, I would tend to think that typically, in a project like this, what happens is that the last 6 months you spend about 40%, 45% of the funds. So about 60%, 65% would have been spent and the balance 35% would be there in terms of the cash flow.

Puneet Gulati: Sir, if you can quantify the balance amount as well the 40%, which is left?

Sriram Khattar: So about INR 300 crores, INR 350 crores.

Puneet Gulati: And lastly, if you can comment on the competitive intensity in the Gurugram market. The commentary seems to be a lot of new players arising. The old ones who once we thought were dead are also rising back. What do you see there in the market?

Sriram Khattar: See, this is a typical market cycle where when the rentals tend to stabilize and move, you will find a few more entrants coming into the market. But the people who are coming into the market are putting up buildings which are less than 1 million square feet each. And these buildings are unlikely to give scale to the larger tenants who want to take up spaces.

So yes, they will have a market, but the market will be for smaller corporate offices and not for the larger global companies and the group capability centers who will still look at much larger developments for their needs, which are in terms of size, much bigger than these smaller ones. So while this competition will be there, I think we are quite confident of sort of facing them and continuing our journey of growth as we have given the guidance or as what we plan.

Puneet Gulati: And similarly, if you can comment on the competitiveness on the residential side?

Ashok Kumar Tyagi: The residential side, the market actually is right down in expanding mode. I mean from a scale standpoint, the fact is that -- I mean, there's possibly one major player in Gurgaon apart from us who is sort of growing at a strong pace. And it is -- we don't force -- we are not seeing any influx of any bigger players of size and scale coming in.

There are obviously one-off projects by a number of players, both original Gurgaon players as well as payers coming in from Mumbai and other places. But I mean that's related. Right now the market is clearly in a zone where it can expand and can sort of absorb more, more supply.

Vivek Anand: And if I were to add, I think demand continues to grow in Gurgaon market. I think the supply is all-time low right? So at this point in time. In fact, NCR continued to be the highest holding inventory to almost 5 years back. Today, if you look at the supply in Gurugram, in particular, it's close to 12 to 15 months. So I think that's one shift which has happened.

And if you look at DLF market share by value in Gurugram amongst the top 10 players, we've actually grown our share to almost double, and the last reported share is 30%. On the pricing, we are seeing, especially again in NCR market, in the last 1 year, we have seen a healthy pricing growth of upwards of 20% versus a national average of close to 10%.

Sriram Khattar: Yes. If I may please add to that. See, in the renting business, we don't look at a market, we always study our competition in the micro market. Honestly, the market in which we operate, say, new Gurgaon or Sohna Road doesn't fall into this market segment at all.

Moderator: We have our next question from the line of Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: My question has been asked. Just a quick one. Any thoughts on Camellias? And also broadly INR 3,000 crores of finished goods inventory, what's the visibility of selling this time?

Sriram Khattar: So Camellias' inventory out of INR 3,000 crores, as of now, as of end December is INR 1,700 crores, and that's almost -- to be precise, these are 46 units. And during the December quarter, we have sold 4 units. And if I look at the average run rate of last 1 year, it's close to 8 to 10 units every quarter. So we expect with the price increase we've taken, right, the pace at which we've been selling will certainly now stabilize at 5 to 6. So this will take at least 2 years for us to really liquidate. So that's one.

In terms of the other inventory, which is around INR 1,200 to INR 1,300 crores, I think a large part of it is in National DevCo, which is sitting across almost 20 projects in Tri-City, in Delhi, in South, and this is residual inventory. And just to give you some numbers, 3 years back, this inventory was close to INR 2,500 crores, which now has been in the last 3 years through our focused efforts, we will be able to bring it down to close to INR 1,200 crores as of end December. So our estimate is that this will take another 2 to 3 years before we will be able to liquidate this.

Moderator: We have our next question from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar: Sir, the first question is specific to your asset Saket, so I noticed that your rental is close to a 160-odd mark. What will be the real reason why that differential versus Select would exist in your view? Select is like near 500. So that's the first one. And that's important, actually, you know why.

The second, sir, is essentially on this Gurgaon, your pricing has gone up quite a lot. But when I look at your disclosures, the gross margin is coming to about 45% odd. So I was -- because we always targeted a gross margin of about 50%. So I was wondering why. Is there some like low-value sales you've done to kind of liquidate a full moving stock? So that's the second one.

And the third is on DCCDL again. Accounting would have allowed you to straight line the rentals in this quarter, right? So was there a straight-lining impact which would have flown through in this quarter? Maybe not from a cash perspective, but from a reported EBITDA perspective, it would have happened?

Sriram Khattar: Yes. So I'll start with the Saket Mall versus this. So I think what you may be referring to is the -- you're comparing the figures that have come in the draft DRHP. The -- first of all, in my reckoning, those figures are for FY '24 or FY '25, their projections. Whereas what you're comparing it with is what you have for the current quarter for FY '23. So that's one sort of gap that you have.

Secondly, as you know, that as a commercial loading, we have 100% loading. I'm given to understand that Select's loading is much, much less. That's number two. Number 3 is that for us, it includes the back block, which is basically the cinema and a few restaurants whereas to my understanding, Select CITY sold its backlog completely, and therefore, the lower rentals that you get for the backlog do not come here. There would be other reasons, but I think these three should suffice for the time being.

As we we've not had a year to stabilize in Saket because the moment we rejuvenated the mall and enhanced it and opened it, COVID hit us. And I think it's been a rather, how would I say, challenging journey on this till now. In the coming year, we've already seen an uptick in the last quarter in the earnings and the footfalls and the trading densities, et cetera. And I believe that we'll continuously witness it. It is our experience that a mall comes to full glory of proper sustainable income after 1 or 2 proper seasons that it has seen through.

Saurabh Kumar: Okay. But your incremental rentals will be similar, right, like on incremental leasing that you do?

Sriram Khattar: Yes. Our incremental rentals in Saket would be quite decent. I don't know whether they will be similar to the Select because I do not know what their incremental rentals would be.

Saurabh Kumar: Second is basically on this on this -- on the DCCDL accounting. So was it a straight-line impact?

Sriram Khattar: Straight-lining, Saurabh as usual, your questions are quite incisive. So on a pure cash into basis to an accrual in the period, the difference is about INR 100 crores to INR 150 crores in the year, which is basically because of the straight-lining.

Saurabh Kumar: No, I'm saying for this quarter, your Downtown would have got straight-line into the EBITDA.

Sriram Khattar: INR 40 crores is what it is for this quarter.

Saurabh Kumar: Okay. Got it. And sir, lastly Vivek, on this gross margin.

Vivek Anand: Yes, I'll take that. So gross margin, yes, you're right. So it's -- of the 12.5 million products, what we've launched in the last 2 years, yes, our margins are somewhere close to 45%. Now it is because of, of course, the mix, right? So let me start with the 2.8 million square feet, which we've launched in DLF City and Phase 5, right? So that is 2.8 million, where our average price realization is upwards of 17,000 per square feet, and our margins are close to 50%, right? That's one.

Now we've launched, again, low-rise floors, which is close to 5.7 million square feet we've launched in New Gurgaon and Panchkula put together. And there, our average realization relatively is low at INR 8,300 square feet and our margins are around 35%. And 1 Midtown, Phase 1, what we launch is 2 million square feet, where our margins are around 42%.

If you take a weighted average of this, right, you will get close to the number what you have. So broadly that's what the construct is. So to answer your question, it's a mix of the different products we've launched across segments and across geographies.

Saurabh Kumar: Just to continue this thought. As your presales stabilize on your P&L in terms of revenues, your -- in terms of the operating leverage, because I'm guessing you're spending a lot of overheads on your brokerage marketing, which is getting in P&L today, which will probably not happen as these sales stabilize. So we should expect margins to kind of move to that 35% plus mark over next 2 years as your revenues catch up to presales?

Vivek Anand: Yes, that's right. Once I -- see, today, if you really look at my revenues, what I'm looking is INR 1,400 crores to INR 1,500 crores a quarter and what I'm selling is INR 2,000 crores a quarter. So there is a gap of almost 25%. I think this will take some time before what I'm booking and what reporting as my revenue catches up, right? So on incremental rate, right, you will see the EBITDA margins really inching upwards to 35-plus levels.

Saurabh Kumar: Yes. So the incremental revenue will come at 45% margin, but the fixed costs don't go up because the staffs.

Vivek Anand: Yes.

Saurabh Kumar: Understood. Understood.

Moderator: We have our next question from the line of Abhinav Sinha from Jefferies.

Abhinav Sinha: My margin question has been answered. The Second question which I had was on the independent valuer number, which has been booked for DCCDL GAV. This seems to have moved up by 10% Q-o-Q both for offices as well as retail and while some of the rental seems to be stable. So any comment on where this could have come from? The increase in valuation.

Sriram Khattar: Well, these are numbers which are given by independent valuers, and they are taken from the report and then mentioned. And I don't think I would like to comment on what valuation has come from credible third parties.

Ashok Kumar Tyagi: But to some degree, I think the reduction in the inventory levels -- in the vacancy levels and I mean the gradual completion cycle of the Downtown, et cetera, starts telling a bit.

Abhinav Sinha: Not to do also with the overhang now with COVID impact?

Vivek Anand: Yes, because that they have not factored in, in this quarter, now they have taken that.

Ashok Kumar Tyagi: So gradually, the values have now begun sort of reducing the overhang of the COVID that was there for the last 2 or 3 years in COVID.

Abhinav Sinha: Okay. Okay. So secondly, any thoughts and I guess that you can provide us on the plans on entering the Noida or Mumbai market, which we may have made some progress during the last few months?

Ashok Kumar Tyagi: So on Noida, I mean a no -- I mean zero progress since we spoke last. On Mumbai, clearly, we continue to try to work with the concerned bank and our joint venture partners in trying to find a solution to the Mahalaxmi project that we have, Tulsiwadi.

We still are struggling to get everybody onboard in a manner that the project can take off. We are in conversations on potentially one more project in Mumbai. But as and when we're sort of near a closure, we will hopefully make an announcement on that. But as we speak right now, nothing further to report than what we had last quarter.

Moderator: We have our next question from Mr. Pritesh Sheth from Motilal Oswal.

Pritesh Sheth: Even I have a question on Noida, but just very specific, recently, I think we have had a few auctions happening in Noida where we didn't participate. So just wanted to understand your thought process whether the margin profile that we are looking at, is it lower than what we are getting for or what's the thought process there?

Ashok Kumar Tyagi: So two issues. One is obviously, the price points at which those biddings had all started. While obviously, if one is desperate, one can obviously participate in those, but I don't think that we needed to be in those -- with those price points.

The Noida comes with its own set of contingencies in these public auctions, including potentially future unquantifiable liabilities around compensation and those sort of things, which frankly make participating in Noida public auctions a slightly dicey process. So we want to be very careful before we participate in one. None of the auctions in the recent past were tempting enough for us to participate.

Pritesh Sheth: Got it. Got it. And just last one, your deliveries for the floors that we have been launching since last year, I mean, FY '22 onwards, will we see that start happening in Q4 of FY '23 or that will be largely in FY '24?

Vivek Anand: Yes. So we are trying our best that we make a beginning this quarter, but for sure, it will start from quarter 1 of next financial year.

Pritesh Sheth: Okay. And on One Midtown is 25?

Vivek Anand: Yes, that's it.

Moderator: We have a next question from Mr. Kunal Lakhan from CLSA.

Kunal Lakhan: So just wanted to understand with the Sector 63 launch and the kind of run rate we have clocked in the 9 months, are we rising our sales guidance or how should we look at full year now?

Ashok Kumar Tyagi: Kunal, we still have, I don't know, 65-odd days of the quarter to clock in. I mean, I think we are very confident that we should hopefully be able to meet and slightly exceed the guidance we have given, but we will not like to substitute the earlier number with a new number right now.

Kunal Lakhan: Okay. Sure. And secondly, with the -- Mr. Khattar said we expect like another 25%-ish increasing the rates and then it should peak out. With the peaking out of rates in site now, like if you can give any update on the REIT plans or any of that sort.

Sriram Khattar: Sorry, your question is not clear. REIT plans?

Kunal Lakhan: Reit plans, yes. So you're expecting the rates to peak out.

Ashok Kumar Tyagi: Hopefully, as the rates start peaking out and then hopefully begin declining, at least the macroeconomic rate-linked uncertainty around the REITs should start gradually melting away. I mean you've seen that at least some of the bigger REITs have had to take the hits because of the interest rate cycle, the way it's panned out and obviously, that's just the nature of the animal, frankly.

So hopefully, as things stabilize, we will come back to you with what the plan is. I mean, as we always mention that our -- downstreaming wise, we are more or less ready now. I think the last set of mergers should be filed in the next whatever couple of weeks I'm told. And then let's just wait for a, the macro and b, what both the players, specifically GIC feel about the entire process. And then we'll take a call.

Moderator: I now hand the conference over to Mr. Ashok Tyagi for closing comments. Over to you, sir.

Ashok Kumar Tyagi: Thank you so much. So I mean, this has been a good quarter both on the development and on the rental business. Clearly, the development pipeline and the residential sales continues to grow at a strong clip. I mean the home mortgage rates have now gone up in excess of 200 basis points since we began this cycle. But hopefully, it has a very, very limited impact on the entire sales cycle and the sales optimism.

And as we begin hopefully reaching the peak of the interest rate cycle, we do look forward to a good few more years of the entire strength in the residential business. And we, because of our locations and our products that we have are hopefully well placed to be able to take advantage of it.

The rental side, I think also, I think the after effects of COVID are now gradually behind us in the retail sector completely, in the offices largely. And the new capex buildout is now accelerating. And hopefully, as we hit fiscal '24, we hit into the confidence stride in both the residential and the commercial side.

Our free cash flows on both sides of the equation, Cyber City and DLF are reasonably strong and which will continue to be deployed gainfully in terms of strategic capex-s and obviously returned to the shareholders. And hopefully, look back to reconnecting back with you at the end of Q4. Thank you.

Vivek Anand: Thank you.

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