"DLF Limited's Q4 & FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 & FY'22 Earnings Conference Call of DLF Limited. We have with us today on the call, Mr. Ashok Kumar Tyagi – CEO, DLF Limited; Mr. Vivek Anand – Group CFO; Mr. Sriram Khattar – MD, Rental Business; and Mr. Aakash Ohri – Chief Business Officer & Group Executive Director.

This call is now being recorded. At this moment, all participant lines are in listen-only mode. Later, we will conduct a question-and-answer session. At that time, you may click on the Q&A tab to write your question or raise hand to ask a live question. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vivek Anand. Thank you and over to you, sir.

Vivek Anand: Yes, thank you, Steven. A very good evening and welcome to DLF Limited Q4 & Financial Year '22 Earnings Webcast. I would like to thank all of you for joining us today. Both you and your family are keeping healthy and safe.

Our business exhibited a strong performance during the fiscal, strong delivery in line with our guidance across all parameters, we remain committed to achieve consistent delivery of our business goals.

With this, I'll start with the Financial Highlights for Q4 Financial Year '22 DLF Limited Consolidated Results: consolidated revenue stood at Rs.1,652 crores, which is down by 13% year-on-year, primarily due to lower possession letters issued during the fiscal. EBITDA stood at Rs.472 crores, reflecting a year-on-year top of 27% due to higher operating expenses and lower other income as compared to the corresponding period. Profit at Rs.414 crores, reflecting year-on-year drop of 13%.

I will now move on to the Financial Highlights for Financial Year '22, DLF Limited Consolidated: Consolidated revenue stood at Rs.6,138 crores, reflecting a year-on-year growth of 3% EBITDA stood at Rs.2,163 crores, reflecting year-on-year increase of 11%, largely explained by margin improvement of 200 basis points due to better product mix. Net profit at Rs.1,513 cross reflecting year-on-year growth of 38%, primarily driven by better product mix, lower finance cost and lower effective tax rate.

I'm also happy to share that the board has recommended a dividend of Rs.3 per share for the approval of the shareholders, which is 150% as compared to last year.

Housing demand continues to exhibit a structural upswing across segments and geographies. Residential business exhibited a record performance in the fiscal and the new sales booking of Rs.7,273 crores, reflecting a year-on-year growth of 136%.

We witnessed strong growth across all our segments and Luxury segment leading the trend. Our Super Luxury offerings the Camellias continues to remain strong with customer interest and delivered healthy sales of Rs.2,550 crores during the fiscal.

Our new product launches across New Delhi, Gurugram and Chennai, continues to receive encouraging response from the market, indicating demand for quality products. The continued momentum further demonstrates rising customers preference towards larger and credible brands with proven track record. New product sales bookings stood at Rs.4,683 crores during the fiscal.

We continue to place enhance focus on surplus cash generation from our operations. Strong collections along with sales ramp up led to one of the highest levels of surplus cash generation of Rs.2,205 crores during the fiscal.

In line with our business goals of derisking our balance sheet, we continue to deleverage and consequently, our net debt at the end of fiscal stood at Rs.2,680 crores, which is the lowest ever of 46% year-on-year reduction.

Sustained momentum and strong tailwinds are expected to support the structural upswing in housing demand over the medium term, and consequently, we continue to strive in scaling up our new product offerings across segments and geographies.

I'll now move on to the to the "Rental Business Financial Highlights for Financial Year 2022 DLF Cybercity Developers Limited Consolidated Results." The rental business continues its steady path to recovery. Office occupancy is gradually recovering and stood at 88% at the fiscal end. Retail business continued strong rebound during the fiscal year. Rental income grew 10% year-on-year supported by 67% rebound in retail income. Consolidated revenue at Rs.4,533 crores as compared to Rs.4,385 crores last year, reflecting a 3% year-on-year growth. EBITDA stood at Rs.3,488 crores as compared to Rs.3,417 crores last year, a year-on-year growth of 2%. Net profit at Rs.1,002 crores, reflecting a year-on-year growth of 10%.

The office business delivered strong collections at 100%. We continue to witness a gradual ramp up in return of occupiers to their workplace and expect these trends to further improve in the next few months. The development of our next-generation workspaces, which is DLF Downtown at Gurugram and Chennai and Data Center at Noida remains on track.

The retail business exhibited strong rebound despite temporary dislocations due to the pandemic in the fourth quarter, especially in the month of Jan, Feb. Footfalls in consumption trends continue to support the healthy growth in this segment. Consequently, we have initiated development plans to build our new retail destinations across certain geographies. Inflationary pressure and reversal of interest rate cycle may pose a marginal risk to the momentum in the industry. However, our strong balance sheet, well diversified portfolio and a strong pipeline of new product offerings with differentiated experience, should withstand such dislocations.

We are comfortably poised to deliver consistent and profitable growth, backed by strong brand equity, robust operating model and healthy cash flows.

With this, I end my results updates. Before we open the floor for Q&A session, we want to clarify that questions pertaining to financial year '23 with regard to sales guidance, new launches, and future outlook, will be addressed during the event that we are housing next week. We would request you to defer your questions on these topics. Today, we shall focus on the reported numbers and any queries that you may have related to the business performance.

Thank you very much. We can now open the floor for Q&A Session.

Moderator: We will now begin the question-and-answer session. The first question is a chat question from the line of Parikshit Khandpal from HDFC Securities. The question is, first, what are the key product launches during FY'23 as we have new launches contributing majorly to the FY'22 pre-sale? Second question, please share the new malls retail pipeline over next two, three years and what is likely incremental rental from the same? And the third question is what are likely plotted launches during FY'23?

Vivek Anand: Parikshit, let me take the first question with regard to the key product launches in the financial year '23. As I said that we'll be happy to take on this question next week when we are meeting face-to-face, but just let me just give you a headline. So, let me start by saying that while we entered this financial year, we have entered with the total inventory of Rs.7,500 crores, which includes Rs.2,500 crores of unsold inventory of ONE Midtown. So that's the start at which we've entered the financial year. And next year, just to give you a headline, we are really looking at launching 7 million square feet, which will be primarily residential developments across different markets of Gurgaon, New Gurgaon, DLF 5, Chennai and Goa and in north, Panchkula, the Tricity. So that's broadly the plan and you will hear more of it when we meet next week.

Sriram Khattar: The question on retail in terms of the pipeline for development, I'll preface by saying that the comeback of demand for retail after the two, three waves of COVID that have been there is pretty strong. And we continue to believe that organized retail will continue to grow faster than the growth of retail. We have programmed to do about 5 million-odd square feet of retail developments. The biggest of this will be Mall of India, Gurgaon, which I will say will not happen in the next three years, but it will take a longer period because of its sheer size and the intricacy of planning that goes into it. The details of this as Vivek said we share it in the next week meeting. Suffice to say that, it will more than double our size today over the next five, six year period.

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

Saurabh Kumar: A few questions. The first is your other expenses in this quarter have gone up quite sharply; that is Rs.320 crores versus last quarter of Rs.202 crores. And the question related to that sir, basically, we still have a lot of recognition coming from Camellias, yet, the margin is not moving to the 35%, 36%, at least on a quarterly basis what we're used to. The second is essentially on the interest cost. You're showing a 130-odd crores interest cost. On your cash flow, your gross is Rs.4,700 crores, that's 7%. So, it should be lower. So why is interest cost, both on the P&L and cash flow higher? And the third sir is essentially on this retail income. What is the run rate right now? So we had Omicron, which may be impacted in Q4, but should we think about this Rs.160 crores as a number, what I'm really trying to get to is the what is the run rate where DCCDL is on your rental income?

Sriram Khattar: Saurabh, good to hear you and good to have you on the call. The retail run rate is about 170 to 175. But that's the exit run rate. I think in Q3, Q4, if there's no further COVID, we should do better than that.

Saurabh Kumar: So, sir the DCL would have now gone to basically 740 plus 170, that's Rs.10 crores of rental run rate what I should --?

Sriram Khattar: At 170 run rate if you multiply it by four, you are at 680, 690, we should cross 700 on that.

Vivek Anand: Saurabh, you have asked me three questions. Let me start with the margins first. I'll come to the quarter clarification later on, but I first want to really talk about how is my full year margin looking like and let me start by talking about the product margin first. So, this full financial year '22, our product margin stand at 52%, which is the improvement of 460 basis points compared to last year. So the first message to you is our margins are improving and they are improving year-on-year, right. So that's one. Within the quarters also if I really look at my Q4 margin exit is 51.5%, so which is very much in line with the yearly average. When you compare my margin Q4 versus Q3, there is a slight drop of 100 basis points, which is because of product mix. So, broadly, yes, within the quarters, there will be some variation, but overall, if you really look at, we are moving in that direction of consistently maintaining and improving our margins upwards of 50%. So that's the first message I want to give you. Then second thing you asked me about other expenses. If you really look at our other expenses on an annualized basis, they've grown by 5%. I'll say that's largely because of two reasons; one is other expenses as a significant part of scaling up expenses when your scales are up, end up paying both brokerage and marketing expenses, right. So compared to last year, our business has more than doubled. So therefore, there is an impact of that, plus there is a small impact of inflation. So, on overall full year basis, our other expenses have grown by 5%. But you're absolutely right, when you compare Q4 with Q3, that is showing an increase of 58%. And that's largely because of two reasons. One is the scale up cost and one is some year-end provisions which we make every year. So when you compare my Q4 with Q4 of last year, you will see that the numbers are almost in line, even the last year Q4 was high at Rs.302 crores. But what I want to give you a comfort is that on a full year basis, I think the costs are very much within control and have grown by 5% despite business growing by more than 100%. The third part of your question was interest cost P&L and cash. Yes, there is a gap and that gap is largely to do with the Ind AS accounting standards. So there are some adjustments which you see, we have to make in P&L, which are not there in cash flow. And that's what is broadly the difference. Moving forward, we expect this interest cost what you see in P&L to be close to half. So I think despite the rate increase, we are committed to really bringing it down to less than half for next year.

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

Kunal Lakhan: Sir, my first question is on our free cash flows. So, if you look at last three quarters, we've been generating free cash flows of Rs.500 crores to Rs.700 crores a quarter. Now, I mean, going by our current debt levels, and we should be debt-free in the next few quarters. But just on a broader sense over a midterm like how would you look at utilizing this cash would we look at land acquisitions, particularly outside of NCR market or any thoughts there?

Vivek Anand: So, you're absolutely right. I think we had a good year when it comes to generation of free cash flow and we are confident of sustaining this performance as we get into '22-23. Now, while our collections are likely to improve this year, at the same time, I'll say our construction outflow, which is coming both from the launch projects and the CAPEX plans we have, we are expecting a significant increase in our construction outflow during the current financial year. So, a large part of the cash will get utilized there. And that's something which is very, very important, because the more you spend, the faster you construct, the earlier you are able to realize, because all our new product launches, the collections are linked to the construction time plans. So that's one. Secondly, there is a lot of cash we will be putting in terms of getting the approvals for the projects, which we are going to launch in the current year, and also getting ready for the next year. So, there will be a significant outflow for that. In terms of are we really looking at deploying capital for buying land at this point in time? I think we have enough land bank to really manage our product pipeline for the next five years. But, yes, there could be some capital deployment to buy small portions of land, to make the existing land bank more contagious, which will be used for our launches. So I think that's broadly what we are really looking at in terms of broad utilization of our cash. And, of course, as you know, we've also really this time, the board has recommended to the shareholders for an increase in dividend, and that will also result in some additional outflow in '22-23.

Kunal Lakhan: My second question was again on the new launches. So, if I look at your launch pipeline, you have about seven and a half million square feet planned for the next year. But beyond this, would you look at like new launches in the luxury segment in Gurgaon besides the independent floors projects, because you've been doing that, but besides independent floors project, would you look at like, say, Crest category kind of project, particularly in Phase 5, just any thoughts there?

Aakash Ohri: Yes, Kunal. Hi, Aakash here. So we'll be looking at launches in the luxury category, we'll be looking at launches in the premium. As Vivek mentioned that some of this, hopefully, we'll be able to discuss when we see you all next week in person, but for sure, DLF 5 has got a lot of, I'd say, right now, square footage to monetize. The whole story of DLF 5 today around Camellias is hovering around Rs.50,000 a square foot, Crest is hovering around Rs.25,000 a square foot, and these are second sales I am talking about. So they've been further ratified, validated and not one Crest, I can safely tell you they've been almost 100-odd transactions now in price points nearing what I just mentioned to you. So yes, obviously, how DLF 5 was conceived earlier, and how it is built and the kind of infrastructure both the point of view hard infrastructure and social, that we've kind of worked hard to put together, now's the time to monetize. So you will see a lot of that happening plus as Vivek mentioned, Pan India, there's going to be developments all across in Goa and elsewhere. So they will fall under the luxury pipeline. So, right now, we are going to be embarking on a reasonably aggressive launch plan this year. And of course, yes, whatever residual that we have, we will sell that too.

Kunal Lakhan: My last question is to Mr. Khattar. If we look at the occupancy levels have clearly improved this quarter. So that's great. Firstly, what's the physical occupancy in your parks and what's the outlook there say, where do you where do it going in the first half or second half of FY'23? And again, your comments on physical occupancies outlook going ahead

Sriram Khattar: So, first of all, we are blessed with a number of parks. So let me go one-by-one. Cybercity, the physical occupancy is around 36% and we are seeing a growth in this week-on-week. I believe this being our largest IT Park, by Q2, the occupancy level should exceed above 70%, 75% which would be more near normal, because at no time is there 100% occupancy with people falling sick and people traveling, etc., That's one. Chennai has been a very pleasant surprise where the occupancy is in excess of 80% today. It has picked up in the last two, two and a half months and it is now normal there and it is coming to pre-COVID levels very, very quickly and I think it should be another few weeks before it comes to that level. Hyderabad, unfortunately, the occupancy is still at about 20%-odd and so is it in Calcutta between 20% and 25%. I believe it has more to do with the industries in the US and they're coming back to office, for some odd reason has a little bit of a rub-off effect on those companies in India also. But by Q2, I believe that occupancies will be fairly healthy to normal.

Moderator: We have the next text question from the line of Manish Agarwal from JM Financial. The question is first, what are our plans for DLF PHV once Camellias sell out? Second, any particular reason why the area and rent per square feet has been restated for all DCCDL assets? Third, what would be the gross leasing number in this quarter in DCCDL reflecting the 2% rise in occupancy to 88%?

Aakash Ohri: So, Phase 5 launches we just covered that in the last question. As I said the potential in Phase 5 is honestly infinite and we've displayed a lot of strength in terms of realizing some values today, which I just mentioned in the previous question as well in both luxury and super luxury. So, there, you can be rest assured of what we are doing and how we are going to be planning those particular launches and monetizing the price points in DLF 5. So, once Camellias is done, they will be both in the luxury and super luxury space, you will have to watch this space, but there will be launches going forward.

Sriram Khattar: To your other question, about a year back, we did a market survey and found out and realize that the factor which you were doing on so-called occupied area, the factor that we were using were far different from what the industry had moved on to. While we were the pioneers in starting that factor about 15, 20 years ago, but the industry had moved to factors which were different. Just as an example, if we were doing a factor of 80%, the industry has moved to 70%, 72%. And what we are feeling is that ultimately, when the market was trying to compare our rental rates with the other rental rates, we were at a handicap, because we were doing it at a factor which was very difficult that industry was doing. So then we spoke to the IPC, we spoke to some of the large tenants. I must say, I spoke to some of our friends on this call today and we decided to move to what the industry norms were. And we decided to start moving on it slowly. So what we did is that the new developments that we are having in our portfolio will be on the new factor norms, and the older ones as the tenancies keep terminating, or the expiry seats come in, we keep moving to the new factors. We have done it quite successfully in the last about six to eight months and we have not had any issues with the tenants who have realized fairly well, that the total outflow they have on the rental remains the same, it is just that the factors have changed. And, therefore, we believe that in the next, say, 12 to 18 months, we would have predominantly and substantially moved to the new factors that we have. And from 1st April onwards, our reporting will be on the new factor. In terms of the new leasing, that is there. By next week, when we meet, I'll be happy to share with you what the plans for the next full year are. We are pretty ambitious and probably equal to or higher than what we have in the pre-COVID times because we have developments going on in Gurgaon, we have developments going on in Chennai, we have developments going on in Noida, and each is a separate geographic market, which gives me a fair amount of mitigation in my geographic risk on the portfolio. What it is for this quarter? This quarter will not be a total for the year divided by four, because typically the first quarter is slower, and then it starts picking up. And my experience is that the Q3 and Q4 roughly are 60% to 65% of the total annual business that is there.

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

Sameer Baisiwala: Vivek, just trying to come back to your earlier answer on capital allocation for fiscal '23. So it's good to see money going back into construction, into business, into growth. But will that leave any surplus free cash flow for deleveraging?

Vivek Anand: Hi, Sameer. The answer is yes. So we will have hopefully enough headroom to continue to deleverage.

Ashok K Tyagi: Sameer, while Vivek's answer is correct, then obviously, the surplus cash flow will be used for deleveraging, but with due respect at Rs.2,600 crores net debt, deleveraging question almost seem like yesterday story.

Sameer Baisiwala: Sir, while that may be true, but it's a low level of leverage, but to get to no leverage or cash positive is also a good thing. The idea behind asking this question is how should we think about this balance sheet and going forward, that was the whole idea. So Vivek, coming back, this fiscal '22 was quite phenomenal in terms of 22 billion-odd sort of free cash flow. So, is it going to be a meaningful number or a small number when we think of fiscal '23?

Vivek Anand: See, I will not like to give any number, Sameer, but I would like to tell you very clearly that our collections last year were Rs.4,500 crores, and as we scale up, my collection numbers are likely to improve quarter-on-quarter. So that's the first thing I would like to say. Secondly, if you really look at my cost base, I'm not expecting my fixed costs to really move significantly up. Yes, there will be some movements because we are scaling up plus inflation. But whereas if you really look at my interest cost, that's likely to significantly come down. So that's a bit on cost. Third is my construction outflow which is directly linked to scale up. I've already talked about. This year '22 financial year, our construction outflow was Rs.600 crores. We expect that to double next year. So there will be a significant outflow there, which is again linked to scale up, plus there will be an approval outflow, because there will be approval costs incurred for getting ready for the current year and for the next year, plus, there will be some outflow net outflow because of the dividend what we have really proposed. So net-net, I think it's difficult for me to really at this point in time give you a number, but directionally, I think we are looking good is what I'll say.

Sameer Baisiwala: The second question is on DCCDL. We had the exit office rental at Rs.744-odd crores. So, what are the levers for growth for fiscal '23 and what could be the exit rental in office DCCDL? And second part related to that is, how are you now thinking about your REIT plans for this entity?

Sriram Khattar: There are a number of questions. Let me take them one-by-one. Our exit rentals, as we have guided earlier, and this used to be Saurabh's pet question which he hasn't asked today, maybe convinced of it by now, our exit rentals for FY'22 are Rs.3,900 crores and our exit rentals for FY'23 will be Rs.4,400 crores to Rs.4,500 crores. The growth in rentals is going to come from three buckets; the first bucket will be the organic growth that takes place in the existing portfolio in offices; two from retail, because retail we believe that if there is no virus, this will be a full year of income earning compared to the previous two years where the retail earnings were hindered because of the malls being closed; and the third bucket is the new assets, where the rent commencement dates would commence in FY'23, which is primarily Downtown Tower to N3. On the REIT, we have guided on the preparation. The preparations are in an advanced stage. There's been a fair amount of discussions with the bankers, tax advisors, etc., And our preparation should be ready in the next couple of months. Thereafter, it is for the shareholders to decide when they would like to do it. Ashok, you may like to add to that.

Ashok K Tyagi: Yes, you're right. Most of the key decisions in terms of downstream mergers and all, I think by and large in-principle been frozen, the asset perimeter has been frozen, I think in some sometime in the next four weeks have a Cybercity board meeting, etc., So I think those issues are now hopefully ended. I think we should be to Sriram's point in the next few months completely ready. Then it's a question of frankly driven by multiplicity of factors including the interest rate, the basic timing comfort of the two shareholders and the improving vacancy level which will drive the timing of the REIT. So that I think frankly, I would hate to conjecture on a on a speculative timeline, but as far as readiness is concerned, I think we are hopefully making good progress there.

Sameer Baisiwala: Any update you can give us on the HSIIDC project, Udyog Vihar, how it's looking like and what sort of completion timelines you are looking at?

Ashok K Tyagi: That project now has a name Atrium Place it's called; Sriram has christened it Atrium Place. In fact, the company is also I think going to be changed now. So, the construction contracts have been awarded, the principle contract has been signed up, the financing is completely tied up, the building plans and all the requisite approvals I think have been obtained, the excavation is at advanced stage. I don't know, Sriram, but I think we are looking at a three year completion timeline?

Sriram Khattar: Ashok, there are those six towers that are there. Four towers will start getting completed over the next 36-months period.

Moderator: The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Sriram, my first question is on the area change which you talked about on the DCCDL owing to some factor changes. When you complete all those changes, what should be the area post that? It has already increased from 36 million to 37 million.

Sriram Khattar: That area change, let me put it in two buckets; offices and retail. First of all, in retail, there is no change. In offices, what we have decided is all the areas in the north and the IP park in South will be at a factor of 70% whereas the IT Sez in Chennai and Hyderabad and the IT Sez in Kolkata, will be at 75% which is just in keeping with the market norms. So that area will go up in my view between 10% to 12%. What has been reported this time in the presentation is the new factor which the area now is about 37 million.

Puneet Gulati: It already captured the factor changes which you have to yet agree with the tenant?

Sriram Khattar: Yes. So therefore, just to put it in perspective, if you see, say, the vacancy percentage will still be at 12%, but the volume of vacancy may look higher because the overall volume has gone up.

Puneet Gulati: The rentals have also been revised downwards in some place, right?

Sriram Khattar: Absolutely. So our tenants who were earlier paying Rs.10 lakhs a month as rental will continue to pay Rs.10 lakhs rental per month. But what we foresee is that as we go into the next four or five years, our flexibility to get better rental realization will be higher because we've just taken down the rentals by 12%, 13%.

Puneet Gulati: This exercise is only for DCCDL, not for the DLF commercial?

Sriram Khattar: It is for the entire portfolio, for example, DLF is making an IT Park in Noida, that also will be at the same factor as an IT Park in DCCDL.

Puneet Gulati: But the existing DLF Center,, Gateway, the DLF 5 renew plus annex that haven't changed?

Sriram Khattar: The Gateway is a building which DLF has a group company. So, it is neither here nor there. One Horizon Centre which we had purchased was already at the 70% backup. So, there was no need to change there.

Puneet Gulati: My second question is on your sales for ONE Midtown. So obviously, there is some bit of rounding. So, last quarter, you sold 0.6 million square feet for some Rs.700-odd crores, this quarter again you sold 0.6 million square feet but for Rs.1,250 crores. So, has the realization gone up by 70%-plus or is it somewhat of rounding of them?

Vivek Anand: No, I think, Puneet, you have picked up some wrong numbers for the last quarter, because the numbers you are talking, the yield realization of Rs.12,000 per square foot, and this was actually launched at Rs.18,000 plus if I'm not mistaken, Aakash. The numbers that we have for last quarter may need to be reconciled offline with our team.

Management: Last quarter should have been 0.4 million square feet and below and not 0.7 million square feet and to what Mr. Tyagi just mentioned, we launched it at 18, we are about 21.5 right now. That's where we are. We are happy to discuss it offline with you or when you're here because we don't arrange those specifics as well.

Puneet Gulati: Lastly, there is Rs.2,077 crores of residual construction cost. Can you divide it between new products and the older products?

Vivek Anand: So out of Rs.2,000 crores plus of construction cost, old projects will be Rs.400 crores, all put together, and balance is on new projects.

Puneet Gulati: So what used to be a Rs.1,000 crores number seven, eight quarters back is only Rs.400 crores?

Vivek Anand: Yes, that's right. We are mostly towards the last phase of the project. So, these are all retentions and all which hopefully will get cleared in the next six to 12 months.

Puneet Gulati: My last question is on the land bank monetization. In your presentation, you talk about 20% of land bank monetization can be done through scale up, so which is almost as 30, 35 million square feet, should one think that's what you can monetize beyond the existing 35 million square feet in next five to six months?

Vivek Anand: Puneet, I think it'll be good we keep this forward-looking questions for the next week. I think we've given a guidance for the next five years… of course, we can continue to monetize beyond five years. But I think we'll be able to share more details when we meet next week

Moderator: We have the next text question from the line of Saurabh Patwa from Quest Investment Advisors. The question is, how do we see the impact of rising interest rates on a commercial real estate business in the context of rental yield expectation?

Ashok K Tyagi: So, if I may, the rising interest rate will have two implications; one, as Vivek' presentation has clearly shown, is the impact on the interest rate of DCCDL. If I'm not mistaken, Vivek, you mentioned about 150 or 170 crores on a post-tax basis as the worst case scenario for that. I think the point that you're asking is more on the impact this will have on the yields which in terms of the monetization value of Cybercity, and there I'll obviously defer to Sriram. But frankly, we have seen in the past also, that interest rate increases and decreases don't necessarily translate in a linear fashion to the yield. If you see the pricing of the three listed REITs, before the 40 basis points increase and after the increase, actually, there hasn't been a dilution in the evaluation. So yes, on a sustained basis, I'm sure there will be an impact, but I think it'd be difficult to speculate. If the interest rates go up by 200 basis points, does it mean that the cap rate moves from 8% to 10%? Maybe not, I mean, that is something obviously the market forces determine, but all I say is that it will not necessarily be a linear correspondence.

Sriram Khattar: What Ashok said was on the yield side. On the bank interest side, our experience has been that in any interest rate cycle, the banks do not necessarily pass on the increase in the CRR and other treasury rates on a one-to-one proportion to the borrowers. And to the good borrowers where we believe that the banking sector is, with money and quality credit is still limited. We neither got the benefit of the complete reduction in rates and I don't think going forward, we will be saddled with the increases as they go ahead. So, my personal feeling is that the total impact by our negotiations and the relationships that we have with the lenders, our impact should not be in more than double-digits.

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

Saurabh Kumar: Two questions. One is buyers would be taking a mortgage as a percentage of last year sales? The second is, Aakash, what has been the like-to-like price increase in some of your key projects, including Midtown, Camellias even the low rise development? And lastly, this is a follow up to Sameer's question. Point is that we have done Rs.2,400 crores, all our costs are going up, but it's not to be seen as a flash in the pan, can we generate a Rs.2,000-odd crores run rate because your collections will also move up along with your outflows and everything, do, do you think at Rs.1,800-2,000 crores cash flow at DLF level is possible? Like-to-like increase, last year this time, what was like the price in Camellias versus where it is today, or where you launched Midtown, where it is today, where you launched your plotted development where it is today, just want to get a generalized sense of price appreciation, because it seems that the price appreciation in your portfolio is far ahead of the market, I just want to kind of get the reason why that's happening?

Aakash Ohri: Thanks for saying that. I hope the luminaries here, including Mr. Tyagi take note of that, but I'll answer that question for you. So, Camellias last year, around the same time, was hovering around Rs.37,500 a square foot. In fact, I just announced yesterday, we have gone up in Camellias in just the BSP price by Rs.5,000 a square foot, we have reduced the special discounts if you notice by another 5%, which is another 2,000, 2,500 and we have reduced the special rebates by 2,500. So, in less than a year, we have been able to take the Camellias price points up by almost

Rs.10,000 a square foot, if not more, and we have demonstrated sales every time that we have done that, including the second sale kind of a transaction, which I'm happy to report to you where an understanding has been reached, but obviously, it will have to be transferred to us right now. Camellias today has just transacted at Rs.50,000 plus PLC, which is 20% which is Rs.60,000 a square foot just three days back. So, this is not a transaction that is done through us. So, the market has validated this now, and of course, the new price points are for everybody to see. Similarly, in ONE Midtown, we launched at about Rs.18,000 that much and we are about anything between Rs.21,500 to Rs.22,000 a square foot we are selling. The only thing is that there are times that we have to take these calls, wherein there is some amount of velocity that is obviously compromised, but we have to show strength in the product and in the region, and unless we do that, nobody else will. So a lot of my competitors I see how they price their products. It's a volume game. I don't know how they meet their margins. I don't know what their business plans are, but, I mean, obviously, that is for them to tell. As far as we are concerned, I think our hurdle rates, our margins, take precedence over sales or the velocity of it. So, while we have to continue to make sure that we sell, but we also have to sell well in terms of the price point. So we've done that also. In fact, there are two more things that I'll tell you in in floors from last time, this time, I'll give you an apple-to-apple comparison, there is a phase-III, which we will take you to when you guys are here next week. We sold just last year at Rs.10,500 to Rs.11,000 a square foot, similar launch in the same geography that we did on the 28th of February, we did it at Rs.16,000. And again, we are almost about 70% sold with that project again. I just came back from new Chandigarh. We launched 15 months or maybe 16 months back, there was some residual plots that we sold there. And when it came to me, we started to sell them at about Rs.38,000 or max Rs.40,000 a square yard. Just about a month back or month and a half back, we exited that project or whatever residual swap that we had at Rs.65,000 a square yard. So, in Chennai, the plots that we just launched, we had budgeted at about Rs.2,900. When we got into the market, we projected it to be about Rs.3,200 a square foot because Chennai sells plots also like that, but you'll all be happy to know that the price points that have been achieved are upwards of Rs.3,750. So, wherever one has seen opportunity, wherever one has seen, how we can kind of increase it without disrupting the market, we have taken that point. Having said that, obviously, the situation has been when it increases, there is that fear of, I'd say, a little bit of a push back, but that also be kind of circumvented by the brand name and the quality. So I think overall across price points, across product lines, we have demonstrated not only this year, Saurabh, you've been tracking us for the last three, four years, wherever even in residual stocks, we have gone ahead and sold at premiums and have not even discounted those projects, which were delivered five, seven years back. So, I think that is something that we take very seriously in this organization.

Management: And then, Saurabh, on your point of mortgage, I think just I'll give you some data points. See, in the segments and in the markets we operate, overall, if you really look at, the percentage of buyers who take mortgage is less than 50%. I can just talk about ONE Midtown because that's what we very recently looked at. So if you really look at the profile of buyers, who bought apartments in ONE Midtown, Delhi, they are by and large businessmen/professionals, which is doctors, CAs, lawyers. There is very less percentage of customers who are salaried, right. And we've actually looked at the profile. In terms of how many of them have taken mortgage, will be somewhere between 35% to 45%, that's broadly the range who have already gone for mortgage. But when it comes to super luxury, the numbers are insignificant. I don't have the numbers, but they will be less than 10%.

Aakash Ohri: Also, I'll just take give you one more data point here on ONE Midtown. If you've seen that area, and you've seen the history of how that area has transacted business, and bought real estate over decades, we've even gone and… I'm not saying we are going to change things around like this, but we've done a lot of clean business, they are not used to spending this kind of clean money on real estate. This particular thing to change that whole trend, change the way people are buying, all this is extremely critical for you all also to know, because those price points that we have also achieved there, are demonstrating that, there is a certain way that we do our business. And again, it's the service and the quality, it's just not about the brick-and-mortar. So to Vivek's point, when I met Citibank, they mentioned to me that 38% of their books come from West Delhi and they kind of do all that. So a lot of bank interest, a lot of, I'd say, loans and everything organized, but their people kind of work mostly on internal accruals and they kind of work around all that. So as far as ONE Midtown is also concerned, we are way ahead of that price curve there in terms of the numbers achieved also. So, I think that is also something that we continue to, I'd say, fight on a daily basis.

Vivek Anand: To your last question on cash, I think my response is not going to be any different from what I have already shared when Sameer asked the same question. All I want to say is we are committed to improving our cash flows here on.

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

Sameer Baisiwala: On your slide #10, I think you had earlier mentioned that 50 units of Camellias you would like to retain for rental purposes and not for sale. But here in your finished inventory, I think you're showing roughly Rs.200 crores. So I just wanted to check whether you have excluded that from here. or not, and you have plans to keep it for rental are intact?

Aakash Ohri: So the rental plan, yes, once we saw the kind of demand and all that, so obviously, what we did was that we sold some rental lease transaction. What we did is that, I'm not sure how many of you know this, but Camellias is today leasing at about Rs.7 lakhs a month, which is if I just do an ROI on that, it's about almost 3% on rental values at about 40,000 if I'm just averaging that number, because a lot of people had bought it at a much lesser price point. So, there is a phenomenal return that is giving to people. What we have done is whilst we will continue to rent because that will be a very big advantage for the NRIs… and I'll just make one quick example there, but yes, we will continue to do the balance of this, maybe we'll split that into two, but we will rent them and then we will monetize them soon. So we are not going to be holding the stock for a later date, but our process and this particular thing because our NRI transactions in sales kind of came to almost a halt because of COVID and 15th of May onwards, we have just relaunched the NRI plan, which for products like Camellias entails a lot to us and presentation and therefore this particular thing happens. I'll give you one quick example of an NRI from Singapore who bought the Camellias online, we arranged for this particular for this gentleman, a turnkey arrangement, we don't do it, but we arranged a turnkey arrangement for construction and everything else, he did that online over the last two years and we arranged a rental also for him online. The gentleman who lives in Singapore is for the first time going to come into India and actually see the Camellias for himself and kind of experience, but already with his investments that he has made, he's already started to make about Rs.7 lakhs plus on rentals sitting in in Singapore. So, your point, this is a model that we will use and we will try and pitch this. We already have in excess of over 100 NRI interest across.

Sameer Baisiwala: I think I got your point that you would rent it but eventually DLF is to sell them down, so, reason to keep them in the inventory numbers, right?

Aakash Ohri: Yes, that's right.

Sameer Baisiwala: How do we see the future of New Gurgaon, in the sense not for resi, for the commercial bit, other than AMEX development that we're doing, are you thinking anything big over there, once Cybercity gets saturated, and you make Cybercity 2.0 over there, your thoughts on this?

Management: New Gurgaon is developing extremely well. And as we go forward, we do see a potential of creating a Cybercity in New Gurgaon. I wouldn't say it will be in the very near future, but over the years, yes. Having said that, there are two very large occupiers like American Express who are talking to us to put up their campuses there. We are also looking at creating a high street shopping center there of roughly about half a million square feet. This is on the commercial side. And once the momentum catches up, we will definitely look at that as the future growth which will come in the event that we have sort of saturated our land banks in Cybercity and in Downtown. We will also look at it independently as an independent price point compared to what we do the rental at Cybercity and what we will do with New Gurgaon. But it's definitely in our horizon and in our focus area.

Moderator: Ladies and gentlemen, we take that as the last question for today. I would now like to hand the conference over to Mr. Ashok Kumar Tyagi for closing comments. Over to you, sir.

Ashok K Tyagi: So thank you once again for taking time off for attending our call. I think as Vivek and many of you mentioned, this has been a pretty robust year on sales front, on finance, and frankly, the resilience that our commercial leasing business has shown. The market continues to be robust and that's the reason we are scaling up, the pace of scale up should hopefully only get even more momentum, we should see a higher amount of sales, the free cash flow should continue at broadly similar trajectory as it was in the last fiscal. Having said that, both the commodity inflation and the interest inflation and the general sort of, I'd say, some headwinds that one can see in the western markets, and maybe in India also, we should be slightly more cautious for the next two to four quarters, and while obviously, I think there is no fundamental change and no fundamental shift, but I think one needs to be slightly more cautious. On the commercial leasing side, as I mentioned, frankly, our offices business despite some extremely tough time, demonstrate phenomenal resilience in collections and in ensuring that the customer stickiness, and our CAPEX build out continues. I think hopefully, we will all discuss all of these points in far greater detail next week when we hope to see most of you physically in Gurgaon. Thank you so much.

Moderator: Ladies and gentlemen, on behalf of DLF Limited, that concludes today's session. Thank you for your participation. You may now click on the "Exit Meeting Icon" to disconnect.