Equity Research

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Real Estate

Sector update

- **DLF** (BUY, TP Rs240)
- **Embassy Office Parks REIT** (BUY, TP Rs408)
- **Mindspace Business Parks REIT** (BUY, TP Rs358)
- **Oberoi Realty** (BUY, TP Rs457)
- **The Phoenix Mills** (BUY, TP Rs780)
- **Prestige Estates Projects** (ADD, TP Rs291)
- **Brigade Enterprises** (BUY, TP Rs272)
- **Godrej Properties** (SELL, TP Rs826)
- **Sunteck Realty** (BUY, TP Rs303)
- **Sobha Ltd** (BUY, TP Rs382)

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INDIA

Real Estate

Residential: The wheat gets separated from the chaff

After a washout in Q1FY21 due to Covid-19-induced lockdown, Q2FY21 has seen residential industry volumes revive to 65% of pre-Covid levels owing to a mix of pent-up demand, price discounts and low mortgage rates. At the same time, Q2FY21 sales bookings for our listed coverage universe stood at 70-100% of Q2FY20 sales, which points to continued consolidation and market share gains. For H2FY21-FY22E, all listed developers have a number of planned launches and continue to focus on monetisation of ready inventory. While the overall industry volumes may remain lower in H2FY21 on YoY basis, we expect listed developers to be continued beneficiaries of industry consolidation and expect their sales volumes to get back to pre-Covid levels in this period assuming further waning of Covid-19 impact. We reiterate our BUY rating on DLF, Brigade Enterprises and Sobha in the residential space.

- **Sales volumes at 65% of pre-Covid levels in Q2FY21:** After a virtual washout in Q1FY21 owing to Covid-19 lockdown, residential sales volumes in Q2FY21 (July-September 2020 period) across India's top 8 cities have bounced back to ~65% of pre-Covid levels, as per Liases Foras. Overall sales in terms of units improved to ~42,300 units, which is up 60% QoQ. The QoQ rise in absorption was accompanied by rise in new launches, which grew 68% QoQ to ~18,600 units as lockdowns were relaxed across cities. With developers continuing to offer discounts of 5-10%, low mortgage rates of ~7-8% and pent-up demand along with Work from Home driving need for houses, large and organised developers have been able to effectively drive sales through digital channels by leveraging their brand strength even in a weak market. The focus in Q2FY21 remained on pushing ready-to-move inventory.
- **Listed developers continue to be beneficiaries of industry consolidation:** While Q2FY21 continued to see Indian cities under lockdown, the listed, organised players clocked anywhere between 70-100% of Q2FY20 sales with a sharp QoQ bump up in sales for Mumbai-centric developers such as Oberoi Realty and Sunteck Realty. Godrej Properties (GPL) had a stellar Q1FY21 wherein its sales booking value grew 71% YoY owing to 50% sales from NRIs and the 10:90 "Hope Has a Plan" builder subvention scheme. With the builder subvention scheme having been phased out in Q2FY21 and no major launches during the quarter, GPL clocked sales bookings of Rs10.7bn in Q2FY21. For H1FY21, this implies sales value growth of 11% for GPL. For South India-based players such as Sobha, Prestige Estates and Brigade Enterprises, sales bookings have recovered to 90-100% of pre-Covid levels. Ex-office strata sale, DLF clocked Q2FY21 sales bookings worth Rs4.7bn vs Q1FY21 bookings of just Rs1.5bn driven by sales of 11 units worth Rs3.0bn in the Camellias project.
- **H2FY21 will see listed players' sales bookings sustain at pre-Covid levels:** Based on our channel checks and management commentary from listed developers in our coverage universe, the momentum seen in Q2FY21 sales bookings has carried forward into the festive season in Oct-Nov 2020 as low mortgage rates, price discounts and stamp duty cuts continue to attract home buyers. We expect these players' H2FY21 sales bookings to be either flat YoY or marginally higher YoY with continued focus on monetising ready inventory with a few launches thrown in depending on project approvals coming through. With all listed developers having a strong pipeline of launches heading into FY22E, we believe a combination of waning Covid-19 impact and further industry consolidation may enable our coverage universe to achieve a double-digit residential volume growth in FY22E.

Industry volumes recover to 65% of pre-Covid levels

Table 1: Tier-1 cities residential absorption (sales bookings)

(Units)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	7,620	7,656	7,876	7,540	2,959	4,856	(36.6)	64.1
Bengaluru	9,184	9,035	9,729	8,386	3,028	4,847	(46.4)	60.1
Chennai	3,597	2,993	2,689	2,757	1,445	2,341	(21.8)	62.0
Hyderabad	5,058	4,905	5,121	5,029	2,190	3,405	(30.6)	55.5
Kolkata	4,127	3,681	3,487	3,130	1,488	2,496	(32.2)	67.7
MMR	17,181	16,945	17,809	16,794	6,421	10,251	(39.5)	59.6
NCR	12,089	11,790	11,902	9,937	3,929	6,236	(47.1)	58.7
Pune	10,636	10,508	11,108	10,419	4,943	7,865	(25.2)	59.1
Overall	**69,492**	**67,513**	**69,721**	**63,992**	**26,403**	**42,297**	**(37.3)**	**60.2**

Source: Liases Foras, I-Sec Research

After a virtual washout in Q1FY21 owing to Covid-19 lockdown, residential sales volumes in Q2FY21 (July-September 2020 period) across India's top 8 cities have bounced back to ~65% of pre-Covid levels, as per Liases Foras. Overall sales in terms of units improved to ~42,300 units, which is up 60% QoQ. The QoQ rise in absorption was accompanied by rise in new launches which grew 68% QoQ to ~18,600 units as lockdowns were relaxed across cities.

Table 2: Tier-1 cities residential launches/supply

(Units)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	5,925	5,630	7,347	8,945	2,006	2,046	(63.7)	2.0
Bengaluru	7,969	7,526	7,393	10,339	2,320	1,542	(79.5)	(33.5)
Chennai	1,210	1,253	2,310	3,788	1,638	175	(86.0)	(89.3)
Hyderabad	3,166	6,863	5,545	4,649	200	1,515	(77.9)	657.5
Kolkata	2,562	4,025	2,403	1,598	179	762	(81.1)	325.7
MMR	20,108	16,075	17,558	21,947	1,998	6,760	(57.9)	238.3
NCR	9,555	7,049	8,317	4,497	1,499	2,624	(62.8)	75.1
Pune	14,616	13,328	16,634	17,105	1,200	3,167	(76.2)	163.9
Overall	**65,111**	**61,749**	**67,505**	**72,868**	**11,040**	**18,591**	**(69.9)**	**68.4**

Source: Liases Foras, I-Sec Research

With developers continuing to offer discounts of 5-10%, low mortgage rates of ~7-8% and pent-up demand along with Work from Home need for houses, large and organised developers have been able to effectively drive sales through digital channels by leveraging their brand strength even in a weak market. The focus in Q2FY21 remained on pushing ready-to-move inventory.

In terms of city-wise absorption, Mumbai Metropolitan Region (MMR) saw a QoQ increase of 60% to ~10,250 units as reduction in stamp duty to 2% from 5% led to significant bump up in conversions as developers offered to waive the balance 2% from their end along with discounts of ~5%. Developers have decided to extend the stamp duty waiver of 2% from their end up to December 2020 in Mumbai, which effectively brings down stamp duty costs for a customer to zero.

While majority absorption in Q2FY21 can be attributed to pent-up demand, as we enter into the festive season in Q3FY21, developers across the board have a number of launches in the pipeline. However, sustained improvement in sales volumes remains contingent on the trajectory of Covid-19 cases and consequent overall impact on the economy.

Price discounts continue across the board

Table 3: City-wise price movement

(Rs/psf)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	3,266	3,226	3,210	3,229	3,203	3,255	0.9	1.6
Bengaluru	5,469	5,500	5,485	5,481	5,462	5,497	(0.1)	0.6
Chennai	5,050	5,024	5,026	5,075	5,185	5,168	2.9	(0.3)
Hyderabad	5,371	5,638	5,625	5,639	5,681	5,777	2.5	1.7
Kolkata	4,274	4,318	4,251	4,206	4,191	4,192	(2.9)	0.0
MMR	12,754	12,453	12,286	12,112	12,147	12,057	(3.2)	(0.7)
NCR	4,578	4,628	4,607	4,605	4,598	4,620	(0.2)	0.5
Pune	5,246	5,262	5,219	5,231	5,229	5,234	(0.5)	0.1
Overall	**6,783**	**6,753**	**6,704**	**6,682**	**6,701**	**6,730**	**(0.3)**	**0.4**

Source: Liases Foras, I-Sec Research

Table 4: Number of projects offering discounts

(Rs/psf)

City	Total Projects	No. of Projects checked for offers & discounts	Projects offering discounts
Ahmedabad	1,302	1,098	673
Bengaluru	1,660	1,144	1,008
Chennai	1,818	1,125	973
Hyderabad	562	470	360
Kolkata	677	474	243
MMR	4,205	2,701	1,712
NCR	907	504	335
Pune	2,297	1,344	742
Overall	**13,428**	**8,860**	**6,046**

Source: Liases Foras, I-Sec Research

As per a study done by Liases Foras, weighted average transacted prices across tier-1 cities have reduced by 4-5% since March 2020. Of this, the maximum decrease in prices on YoY basis has been in the MMR and NCR markets, which declined 8% and 9%, respectively. Developers are offering a combined discount of 5-10% including stamp duty/registration fee waiver, cash discounts, online booking discounts, free domestic appliances and builder subvention/deferred payment schemes.

Around 68% of the projects surveyed by Liases Foras were offering some discount schemes to push the inventory. We expect these discounts of 5-10% to continue in H2FY21 as developers focus on cashflows.

Interestingly, the stressed micro-market of central Mumbai in the MMR, which has a significant unsold inventory, has seen a number of deal closures in H1FY21 as investors look to exit these projects which are now complete. As per our channel checks, units having a quoted price of Rs60-100mn before the lockdown are now seeing transactions happening at 20-30% discount to quoted prices vs 10-15% pre-Covid.

Unsold inventory remains high

Table 5: Tier-1 cities unsold inventory

(Units)

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	68,955	68,402	69,812	71,217	69,653	66,797	(2.3)	(4.1)
Bengaluru	105,776	102,433	100,255	102,208	99,130	95,670	(6.6)	(3.5)
Chennai	77,972	76,141	76,747	77,778	78,053	75,529	(0.8)	(3.2)
Hyderabad	43,416	45,958	45,954	45,574	43,355	42,411	(7.7)	(2.2)
Kolkata	56,172	56,632	56,076	54,544	52,851	50,991	(10.0)	(3.5)
MMR	290,697	291,309	293,376	298,529	291,332	288,778	(0.9)	(0.9)
NCR	194,480	190,047	186,734	181,294	177,425	169,099	(11.0)	(4.7)
Pune	138,057	142,767	149,039	155,725	149,308	143,492	0.5	(3.9)
Overall	**975,525**	**973,689**	**977,993**	**986,869**	**961,107**	**932,767**	**(4.2)**	**(2.9)**

Source: Liases Foras, I-Sec Research

Table 6: City-wise months of unsold inventory

City	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Ahmedabad	27	27	27	28	71	41	54.0	(41.6)
Bengaluru	35	34	31	37	98	59	74.1	(39.7)
Chennai	65	76	86	85	162	97	26.8	(40.3)
Hyderabad	26	28	27	27	59	37	32.9	(37.1)
Kolkata	41	46	48	52	107	61	32.8	(42.5)
MMR	51	52	49	53	136	85	63.9	(37.9)
NCR	48	48	47	55	135	81	68.2	(40.0)
Pune	39	41	40	45	91	55	34.3	(39.6)
Overall	**42**	**43**	**42**	**46**	**109**	**66**	**52.9**	**(39.4)**

Source: Liases Foras, I-Sec Research

Unsold inventory, in terms of months, remains high at 66 months in Q2FY21 vs 43 months in Q2FY20. The MMR and NCR markets continue to have over 50 months of unsold inventory whereas Southern markets such as Bengaluru, Hyderabad as well as Pune have relatively lower inventory levels of ~40-50 months of inventory. However, as highlighted earlier, ~50% of the inventory in MMR and NCR consists of stuck projects and will not qualify as inventory for a prospective homebuyer who is concerned about project delivery. We expect inventory months level to gradually reduce back to 40-45 months by Q4FY21 as volumes improve further, unless there is continued impact of Covid-19 on sentiment.

We believe markets where residential prices hover between Rs5,000/psf and Rs6,000/psf will continue to see demand for properties as construction and land cost/approval costs for a standalone building is at least Rs4,000/psf, leaving an EBITDA margin of 20-25% for developers, which is reasonable considering the risks involved in land titles, obtaining approvals and the cyclical demand seen in the sector.

Hence, we believe, Southern markets of Bengaluru, Chennai and Hyderabad and Western city of Pune will continue to attract demand for units priced in the range of Rs2.5mn-Rs10mn, while sales in luxury projects may be strong in select projects depending on the developer’s brand pull, location, pricing, size of the project and stage of execution.

Organised players will continue to benefit

While QoQ sales volumes of listed developers may appear volatile depending on the number of launches/activations in a specific quarter, the broader theme of ready inventory and new launches from listed developers continuing to see strong buyer interest remains intact. This is reflected across the board with strong response to activation schemes for completed/nearing completion inventory even in H1FY21 where Indian cities continued to be under lockdown.

While Q2FY21 continued to see Indian cities under lockdown, the listed, organised players clocked anywhere between 70-100% of Q2FY20 sales with a sharp QoQ bump up in sales for Mumbai-centric developers such as Oberoi Realty and Sunteck Realty. Companies continue to effectively use digital channels and tap the NRI market to generate sustenance sales until Covid-19 concerns remain.

Godrej Properties (GPL) had a stellar Q1FY21 wherein its sales booking value grew 71% YoY owing to 50% sales from NRIs and the 10:90 “Hope Has a Plan” builder subvention scheme. With the builder subvention scheme having been phased out in Q2FY21 and no major launches during the quarter, GPL clocked sales bookings of Rs10.7bn in Q2FY21. For H1FY21, this implies sales value growth of 11% for GPL. For South India based players such as Sobha, Prestige Estates and Brigade Enterprises, sales bookings have recovered to 90-100% of pre-Covid levels. While Brigade and Sobha have been largely reliant on monetisation of launched inventory and activation schemes, Prestige Estates launched three new projects (one in Goa and two in Bengaluru) through digital channels during the quarter.

Table 7: Quarterly sales volumes of major listed players

Company	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
Godrej Properties:								
Sales Volumes (msf)	1.3	2.3	1.6	3.6	2.5	1.7	(23.4)	(31.2)
Sales Value (Rs mn)	8,970	14,460	11,890	23,830	15,310	10,740	(25.7)	(29.8)
DLF:								
Sales Volumes (msf)	NA	NA	NA	NA	NA	NA	NM	NM
Sales Value (Rs mn)	7,050	7,250	7,310	3,250	1,520	2,000	(35.2)	209.2
Prestige Estates:								
Sales Volumes (msf) – PEPL share	1.4	1.2	1.3	1.7	0.6	1.3	12.5	137.1
PEPL Sales Value (Rs mn)	8,614	8,382	10,932	9,963	3,982	8,381	(0.0)	110.5
Sobha:								
Sales Volumes (msf)	1.1	1.0	1.1	0.9	0.7	0.9	(14.0)	37.1
Sales Value (Rs mn)	7,777	6,823	7,261	6,945	4,877	6,899	1.1	41.4
Brigade Enterprises:								
Sales Volumes (msf)	1.1	1.0	1.1	1.1	0.4	1.0	(0.9)	134.7
Sales Value (Rs mn)	5,933	5,288	6,035	6,512	2,499	5,760	8.9	130.5
Oberoi Realty:								
Sales Volumes (msf)	0.2	0.1	0.2	0.1	0.0	0.1	(7.1)	NM
Sales Value (Rs mn)	4,011	3,228	3,033	2,303	242	3,273	1.4	NM
Sunteck Realty:								
Sales Volumes (msf)	0.2	0.1	0.2	1.4	0.1	0.2	144.0	38.6
Sales Value (Rs mn)	1,858	1,016	3,254	6,080	1,012	2,000	96.9	97.6

Source: Companies, I-Sec Research

Table 8: Q2FY21 performance and H2FY21 launch plans of listed developers

Company	Q2FY21 performance and H2FY21 launch/sales pipeline
DLF	DLF clocked Q2FY21 net sales bookings of Rs8.5bn which include Rs3.8bn of strata sales of Amex office tower in Gurugram. Ex-office strata sale, DLF clocked Q2FY21 sales bookings worth Rs4.7bn vs Q1FY21 bookings of just Rs1.5bn driven by sales of 11 units worth Rs3.0bn in the super luxury Camellias project. DLF has outlined a long-term plan to launch and develop ~35msf of projects having potential sale value of Rs360-400bn. Of this, DLF intends to launch ~12msf over the next 18 months (H2FY21-FY22E) across plots/mid-income housing/independent floors in Gurugram, Chandigarh and New Delhi in a phased manner. For H2FY21, DLF is targeting a quarterly booking run-rate of Rs7.5bn (pre-Covid levels) on the back of new launches. Initial response to independent floors launch in Gurugram in Q3FY21 priced at an average ticket size of Rs30mn has been encouraging as per the management commentary.
Godrej Properties	In Q2FY21, Godrej Properties (GPL) achieved gross sales bookings worth Rs10.7bn (decline of 26% YoY and 30% QoQ). This was along expected lines as the 10-90 builder subvention scheme was phased out by the end of July 2020 (contributed to 80% of Q1FY21 bookings) and absence of any major launches during the quarter. NRI share of sales stood at 25% in Q2FY21 vs 50% in Q1FY21. For H1FY21, GPL's gross sales bookings are up 11% YoY at Rs26.1bn, which we believe is commendable considering the Covid-19 impact on the realty industry in this period. With ~13msf of launches lined up in H2FY21 (excluding Bandra/Worli projects), GPL continues to target an overall YoY growth in FY21 sales bookings on a FY20 base of Rs59.2bn.
Oberoi Realty	After a washout quarter in Q1FY21 where Oberoi Realty (OBER) achieved just Rs0.2bn of new sales bookings, Q2FY21 saw sales bookings of Rs3.3bn (flat YoY) bouncing back to pre-Covid levels. This was driven by sales of 3 units in Worli worth Rs1.3bn and Rs1.0bn of sales in Exquisite/Esquire in Goregaon as buyer interest in completed properties see traction post lockdown. While OBER was all set to launch the Thane project during the festive season, the company has held back the launch pending clarity on FSI norms under the proposed Unified Development Plan for the Mumbai region. The company is also planning to launch new towers in Goregaon/Borivali projects depending on market sentiment. These upcoming launches along with the completion of 360 West Worli project and near completion inventory in Mulund and Borivali is expected to drive the sales momentum over the next 12-18 months.
Prestige Estates	Q2FY21 saw Prestige Estates Projects' (PEPL) gross residential bookings bouncing back to pre-Covid levels of over Rs10bn. With a strong pipeline of launches in H2FY21, this momentum in residential sales is expected to sustain. PEPL has had 3 large virtual launches including its maiden project in Goa christened "Ocean Crest", Primrose Hills in Banashankari, Bengaluru and Waterford in Whitefield, Bengaluru. The company continues to have a strong pipeline of launches but exact launch plans will hinge on approvals and sentiment in the market
Sobha Limited	Sobha achieved Q2FY21 gross sales bookings of 0.89msf worth Rs6.9bn, which were down 14% YoY in volume terms but up 1% YoY in value terms. On QoQ basis, gross sales volumes and value were up 37% and 41%, respectively, and as per the company, enquiry levels are almost at pre-Covid levels. The exit run-rate for monthly sales volumes in August-September 2020 would be 0.30-0.35msf, which is almost 90-100% of pre-Covid monthly run rate. Sobha's management has indicated that it is now targeting YoY growth in H2FY21 sales bookings on the back of improved demand in ongoing projects and a strong launch pipeline in Bengaluru/Chennai of 4-5msf. While the company remains optimistic about its upcoming launch pipeline of 14.5msf, the timing and area launched for sale remains dependent on the Covid-19 containment in India and project approvals in H2FY21E, especially in Bengaluru.
Brigade Enterprises	After seeing a significant drop in Q1FY21 sales volumes to 0.4msf vs pre-Covid quarterly run-rate of 1.0msf, Brigade clocked 1.0msf of sales volumes in Q2FY21 driven by activations at its Brigade Showcase event held in August 2020 and release of fresh inventory in its mid-income/affordable housing projects in Bengaluru. The company is targeting new launches in Bengaluru/Hyderabad/Chennai in H2FY21 and continues to also tap the NRI market and is looking to sustain the pre-Covid quarterly volume run-rate of 1msf in H2FY21.
Sunteck Realty	Sunteck reported Q2FY21 sales bookings of Rs2.0bn, which is up 2x YoY and QoQ. Sales were largely driven by monetisation of ready inventory at Signia High, Borivali with ~30 units sold for Rs1.1bn and Avenue 1 at ODC, Goregaon (26 units sold for Rs0.5bn). Going into the festive season, with the receipt of the occupation certificate for Avenue 1 at ODC, Goregaon and ready-to-move inventory of Rs22bn across projects, the company is targeting sustained momentum in sales bookings. Further launches in affordable housing project in Naigaon and possible launches in Vasai/ /Vasind are key monitorables.

Source: Companies, I-Sec research

Appendix: Real Estate Regulator, a game changer

H2FY17 saw major disruption in the form of demonetisation, which led to a virtual washout in terms of new sales with buyers shying away from home purchases on expectations of prices dropping and developers holding back launches owing to weak market conditions and imminent introduction of the Real Estate (Regulation and Development) Act, 2016 (RERA) and the implementation of the Goods & Services Tax (GST) in H1FY18.

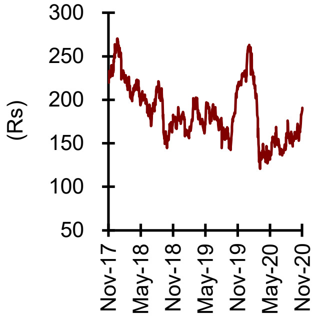
While RERA implementation saw initial teething problems with various states amending the laws as per their preference and few states delaying the implementation, issues have gradually smoothened out from a procedural standpoint with most developers reporting a smooth transition under the RERA regime. However, while organised and large developers will continue to function smoothly under RERA, we believe smaller and unorganised developers will gradually weed out of the market owing to the following reasons:

- Developers can no longer launch projects without approvals and have to wait for a minimum 6-12 months on an average to launch a project post purchasing a land parcel.
- Developers need to maintain an escrow account for each project (can be defined as an entire piece of land or a cluster of buildings) and cannot divert funds to other projects until the construction funding for the existing project has been met through customer collections.
- There are penalties levied for delay in execution and handover of units and developers cannot abandon/leave a project.

While there may still be many smaller developers who will eventually graduate to an organised way of working under RERA, large and organised developers will have a clear advantage owing to stronger balance sheets, higher customer confidence in delivery capabilities and transparency in pricing and absence of cash component in transactions post demonetisation.

Price chart

DLF



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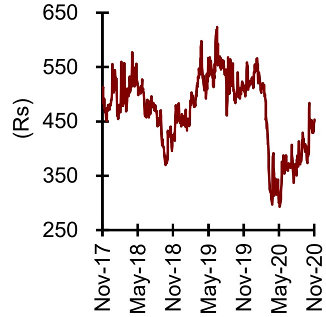
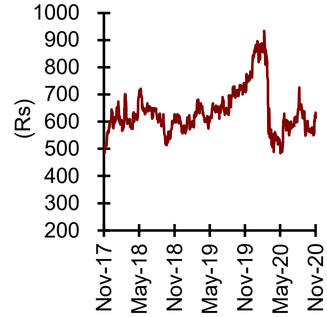


The Phoenix Mills



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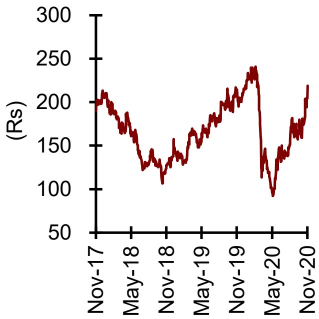

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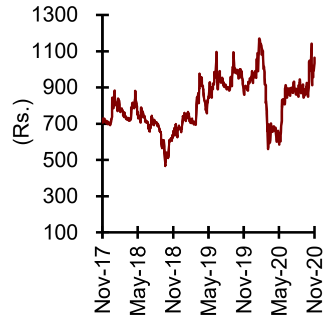

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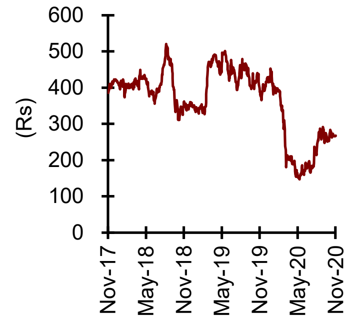
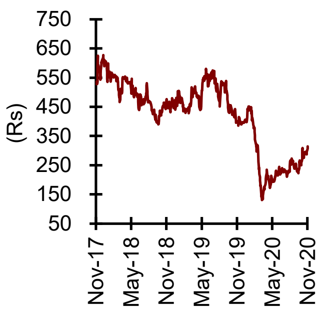
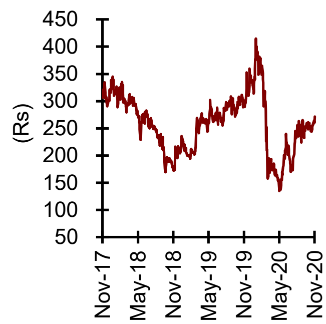


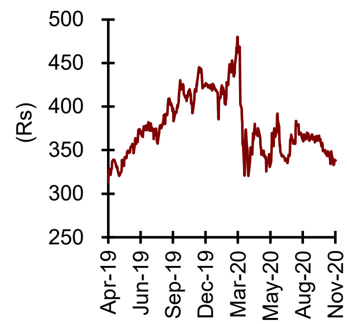
Sobha Ltd



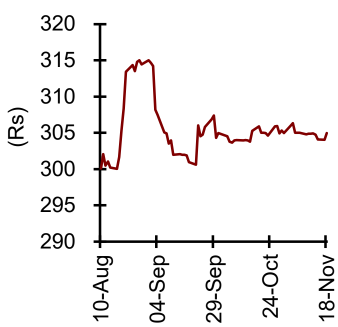
Prestige Estates Projects



Embassy REIT



Mindspace Business Parks REIT



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