Equity Research

August 20, 2021

BSE Sensex: 55629

ICICI Securities Limited is the author and distributor of this report

Real Estate

Sector update

- **DLF** (ADD)
- **Oberoi Realty** (BUY)
- **Macrotech Developers** (ADD)
- **Mahindra Lifespace Developers** (BUY)
- **The Phoenix Mills** (BUY)
- **Prestige Estates Projects** (ADD)
- **Brigade Enterprises** (BUY)
- **Godrej Properties** (SELL)
- **Sunteck Realty** (BUY)
- **Sobha Ltd** (ADD)

Research Analyst:

Adhidev Chattopadhyay
adhidev.chattopadhyay@icicisecurities.com
+91 22 6637 7451

INDIA

ICICI Securities

Real Estate

Relishing the Debt Diet

At the beginning of the first wave of Covid in Mar'20, there were liquidity concerns for developers owing to the complete shutdown across India. However, listed developers in our coverage universe (ex-REITs) have been relishing the "Debt Diet" and have been able to bring down their consolidated net debt levels by 37% to Rs274bn between Mar'20 to Jun'21. This has been achieved through the organic route of operating cash surpluses, reduced interest costs and control on corporate overheads and inorganic route (equity fund raise, asset sale and stake dilution at SPV level). Going forward, with leaner balance sheets, we believe that listed developers will continue to invest in growth and gain market share. Our top picks are DLF, Oberoi Realty, Macrotech, Phoenix Mills and Brigade Enterprises.

- **Listed developers' net debt levels have declined by 37% post Covid:** On an aggregate basis, listed developers in our coverage universe (ex-REITs) have been able to bring down their consolidated net debt levels by 37% to Rs274bn (ex-DCCDL) between Q4FY20-Q1FY22 (Mar'20 to Jun'21). This has been achieved through a combination of reduction in cost of debt by 80-160bps, reduction in corporate overheads by 20-40% from pre-Covid levels, operating cash surpluses, asset sales and equity capital raises either through the QIP route or through dilution at the SPV level. While the overall real estate sector in India, especially the unlisted space, continues to grapple with high cost and quantum of debt, listed developers' balance sheets have become leaner and puts them in a strong position to invest for growth in the medium term and is likely to accelerate the pace of consolidation in the sector.
- **Developers have used a mix of organic and inorganic routes to reduce debt:** In our coverage universe, companies such as DLF, Sunteck Realty, Sobha and Brigade relied on the organic route to bring down their net debt levels in FY21 while Oberoi Realty was able to maintain its fortress balance sheet which had low debt levels even pre-Covid. Few companies such as Godrej Properties, Phoenix Mills and Brigade Enterprises have raised capital through the QIP route over Mar'20-Jun'21 to have a cushion against any prolonged Covid related impact and also to keep a war chest ready to be utilised as growth capital when sentiment improves significantly. Private capital also continued to be a preferred mode of fund raising as Prestige Estates sold a major portion of its operational office and rental assets to the Blackstone Group to significantly bring down debt levels while the Phoenix Mills diluted stake in its Pune mall and Mumbai (Kurla) malls and offices to GIC PE and also secured fresh commitments from CPPIB for investment in its Island Star, Bengaluru SPV and greenfield Kolkata mall. Macrotech Developers (Lodha) which listed in Q1FY22, was able to reduce its India business net debt by Rs36bn in Q1FY22 to Rs125bn through a mix of IPO proceeds of Rs24bn along with repayment of Rs16bn of promoter loans.
- **Listed developers to invest in growth once Covid impact fades away:** As per the stated intent of majority of developers in our coverage universe, while they have protected their balance sheets through the tough Covid impacted period, they will again begin to invest in new land parcels in a judicious manner to grow their business over the next three to four years. However, unlike previous cycles they do not intend to binge on land and will be selective in buying land and will look to stagger payments wherever possible and take advantage of the stress in the market. Companies such as DLF and Lodha will look to bring down their debt levels further over FY22-24E, while Godrej Properties intends to invest an additional USD1bn over FY22-23E to acquire new land parcels as part of its counter-cyclical land banking strategy.

Listed developers' debt levels have declined by 37% post Covid

Table 1: Consolidated net debt levels (Q4FY20-Q1FY22)

(Year ending March Rs mn)

Company	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Decline from Q4FY20 (%)
DLF (ex-DCCDL)	52,670	52,250	52,150	51,000	48,850	47,450	*-9.9%*
DLF - DCCDL	1,80,070	1,78,880	1,81,030	1,80,900	1,91,920	1,90,720	*5.9%*
Godrej Properties	11,590	17,520	27,330	30,770	(5,820)	(2,380)	*NM*
Oberoi Realty	8,915	9,725	9,657	14,705	12,595	11,352	*27.3%*
Macrotech (Lodha)	1,82,272	NA	NA	1,66,250	1,60,760	1,24,250	*-31.8%*
Phoenix Mills*	32,564	27,992	26,205	26,756	25,490	16,861	*-48.2%*
Prestige Estates*	81,743	84,058	86,676	84,645	13,141	21,706	*-73.4%*
Sobha Ltd.	30,230	30,210	30,500	29,750	28,520	28,170	*-6.8%*
Brigade Enterprises*	28,311	28,831	29,911	29,479	26,547	21,175	*-25.2%*
Sunteck Realty	6,158	6,875	7,041	6,723	4,637	4,678	*-24.0%*
Mahindra Lifespaces^	1,021	1,120	1,668	663	1,142	926	*-9.3%*
Total ex-DCCDL	**4,35,474**	**2,58,581**	**2,71,138**	**4,40,741**	**3,15,862**	**2,74,188**	***-37.0%***
Total with DCCDL	**6,15,544**	**4,37,461**	**4,52,168**	**6,21,641**	**5,07,782**	**4,64,908**	***-24.5%***

Source: Companies, I-Sec Research, *Proportionate company share, ^excluding World Cities

Table 2: Listed Developers' Cost of Debt (Q4FY20-Q1FY22)

(%)

Company	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Decline from Q4FY20 (bps)
DLF (ex-DCCDL)	9.8%	9.7%	9.1%	8.9%	8.4%	8.2%	***(160)***
DLF - DCCDL	8.9%	8.6%	8.5%	7.8%	7.5%	7.4%	***(148)***
Godrej Properties	7.9%	7.8%	7.6%	7.3%	6.8%	6.7%	***(120)***
Oberoi Realty	NA	NA	NA	NA	NA	NA	***NA***
Macrotech (Lodha)	NA	NA	NA	NA	12.3%	11.6%	***NA***
Phoenix Mills	9.2%	9.1%	8.9%	8.5%	8.2%	7.9%	***(129)***
Prestige Estates	9.8%	9.7%	9.7%	9.3%	9.8%	9.8%	***(2)***
Sobha Ltd.	9.7%	9.6%	9.3%	9.2%	9.0%	9.0%	***(71)***
Brigade Enterprises	9.6%	9.6%	9.2%	9.0%	8.4%	8.1%	***(143)***
Sunteck Realty*	9.4%	9.4%	9.2%	9.1%	8.8%	8.6%	***(80)***
Mahindra Lifespaces	8.7%	8.2%	7.4%	7.5%	7.1%	7.1%	***(161)***

Source: Companies, I-Sec Research, *Isec estimates

Table 3: Listed Developers' Net Debt/Equity (Q4FY20-Q1FY22)

(x)

Company	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
DLF (ex-DCCDL)	0.2	0.2	0.2	0.1	0.1	0.1
DLF – DCCDL*	3.4	3.3	3.4	3.2	3.2	3.1
Godrej Properties	0.2	0.4	0.6	0.6	(0.1)	(0.0)
Oberoi Realty	0.1	0.1	0.1	0.2	0.1	0.1
Macrotech (Lodha)	4.0	NA	NA	3.5	3.5	1.7
Phoenix Mills	1.0	0.7	0.6	0.7	0.8	0.3
Prestige Estates	1.5	1.5	1.5	1.5	0.2	0.3
Sobha Ltd.	1.2	1.2	1.3	1.2	1.2	1.2
Brigade Enterprises	1.2	1.2	1.3	1.3	1.2	0.9
Sunteck Realty	0.2	0.2	0.3	0.2	0.2	0.2
Mahindra Lifespaces	0.1	0.1	0.1	0.0	0.1	0.1

Source: Companies, I-Sec Research, *For DLF – DCCDL, net debt/Gross Asset Value (GAV) or net debt/EBITDA are the relevant ratios considering that it's a pure rental business. Figures given here are for representation purposes only

Table 4: Qualitative commentary on debt reduction and way forward for listed developers

Company	Road to debt reduction post Covid and future plans
DLF	DLF's net debt (ex-DCCDL) declined QoQ by Rs1.4bn to Rs47.4bn in Q1FY22 vs. an overall reduction of Rs3.8bn in FY21. The company is targeting further reduction in debt levels through the organic route over FY22-23E on the back of improved operating surplus from devco business and a structural reduction in cash overheads (down 41% YoY in FY21) and lower interest costs. For DCCDL, net has increased marginally post Covid over the past five quarters as the company incurred capex of ~Rs10bn over the same period and also acquired balance stake in One Horizon Centre and retail rentals were down 46% YoY on account of rental waivers owing to Covid. **While optically net debt/equity of 3.1x as of Jun'21 may appear high, net debt to Gross Asset Value (GAV) considering only operational assets is only 0.4x.** While DCCDL's net debt levels may remain elevated in FY22E, this may significantly reduce post a potential REIT listing in FY23E (as per company, it is in the process of getting DCCDL REIT ready by the end of FY22
Godrej Properties	The company's net debt increased by Rs19.2bn between Q4FY20 to Q3FY21 as the company continued to incur significant land capex/JDA advances of Rs16.0bn during the same period. **However, a QIP fund raise of Rs37bn in Q4FY21 resulted in the company becoming net cash from Q4FY21.** With the company's stated intent to invest over USD1bn (~Rs75bn) into new projects over FY22-23E, the company's net debt levels are expected to rise again but will be compensated by higher operating surplus considering the large pipeline of project launches
Oberoi Realty	Oberoi Realty has historically been one of the most conservative companies in terms of taking on debt and continued to be frugal even through FY21 and has maintained its fortress balance sheet. **Over FY22-24E, the company is expected to incur significant capex to complete its Commerz III office and Borivali Mall which can be easily funded through operational surplus in the residential business, in our view**. Any requirement for growth capital for large land purchases may be funded either through internal accruals or a fresh equity fund raise
Macrotech Developers (Lodha)	Lodha has been India's largest developer by residential sales value over FY16-20 with an estimated double digit market share in the Mumbai Metropolitan Region (MMR). While the company has had high debt levels historically, the company has made significant progress towards debt reduction post listing in Q1FY22. As of Mar'21, the company had India business net debt of Rs160.8bn. **Post listing, the company has made significant progress towards debt reduction in Q1FY22 with net IPO proceeds of Rs24bn along with repayment of Rs16bn of promoter loans.** Against the total inflow of Rs40bn from IPO proceeds/promoter loan repayment, the company's India business net debt has reduced by Rs36bn QoQ to Rs125bn as of Jun'21. **Company has given a formal guidance to reduce its India business net debt to ~Rs10bn by Mar'22 and has an aspiration to become a net debt free company by Mar'24**
Phoenix Mills	At the start of the first wave of Covid in Mar'20, the company had to shutter all its malls and was unable to collect rentals from tenants as a consequence for majority of H1FY21. **However, a timely QIP fund raise of Rs11bn helped the company to tide over that period.** As of Mar'21, PHNX had consolidated gross debt of Rs44.7bn along with cash/liquid investments of Rs10.3bn. With the first tranche of GIC PE fund infusion of Rs11.1bn and expected CPPIB fund infusion of Rs3.84bn in two tranches in Kolkata Mall SPV, **PHNX may have ~Rs25bn of liquidity in H1FY22.** Apart from this, including balance potential fund infusion by GIC PE of Rs4bn and balance CPPIB fund infusion of Rs1.8bn in Kolkata Mall SPV and Rs4bn in Island Star SPV, PHNX has access to additional funds of Rs10bn for deployment in standalone business and mall SPVs.
Brigade Enterprises	While the company's rental and hospitality business were impacted by Covid in FY21, BRGD's share of overall net debt levels declined by Rs1.8bn to Rs26.6bn of which residential debt declined by Rs2.0bn YoY while leasing asset debt increased by ~Rs5bn. **The company has also recently completed a QIP fund raise of Rs5bn which gives it adequate cushion against a prolonged second Covid wave impact and also puts in a position to deploy further capital for growth once sentiment improves.**

Source: Companies, I-Sec research

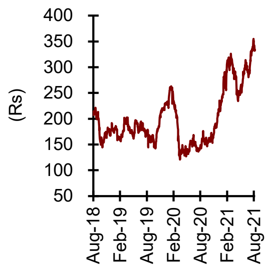
Table 5: Qualitative commentary on debt reduction and way forward for listed developers (continued)

Company	Road to debt reduction post Covid and future plans
Prestige Estates Projects	The company's net debt has remained sticky at ~Rs85bn up to Q3FY21. However, the company decided to monetise a large majority of its operational office and mall assets to the Blackstone Group. **On November 9, 2020, PEPL had informed exchanges that the company had executed a Term Sheet with Blackstone Group entities for specific assets held in various SPVs of PEPL.** As per the disclosures given by PEPL, the Blackstone Group entities were evaluating purchase of up to 100% stake held in specific asset SPVs of 6 completed office assets, 85-87% stake in 9 operational malls, up to 50% stake in 4 under-construction/upcoming office assets and up to 100% in operational Aloft hotel and 100% in operational Oakwood hotel for an EV of Rs91.6bn. **PEPL had consolidated net debt of Rs84.6bn as of Dec'20 which reduced to Rs13.1bn in Q4FY21 (net D/E of 0.2x) post completion of Phase 1 of the transaction.** As per company's management, post completion of Phase 2 of the transaction, PEPL will receive an additional Rs13bn which will enable the company to reduce net debt levels further in Q2FY22. While the company's balance sheet is strong, it has given guidance for an annual exit rental income of Rs3.5bn by Mar'22 and is embarking on a **fresh round of capex with incremental committed capex of Rs35-40bn over FY22-25E** of which 7msf is in Mumbai with the balance largely in Bengaluru and other markets in South India
Sobha Ltd.	In FY21, Sobha generated positive operating surplus of Rs6.4bn, which was negated by interest/tax/capex outgo of Rs4.6bn leading to net debt reducing by Rs1.7bn to Rs28.5bn (net D/E of 1.2x). **The company intends to bring absolute net debt levels down by another Rs1.5-2.0bn in FY22E as well**
Sunteck Realty	**The company has been able to organically bring down its net debt levels from Rs7.0bn as of Sep'20 to Rs4.7bn as of Jun'21 (net D/E of 0.2x) through operating surplus** and has been able to add three new land parcels in Vasai/Vasind/Borivali through the asset light JDA (revenue share) model post Covid. Going forward, the company will continue to pursue its asset light land banking strategy
Mahindra Lifespaces	The company has had minimal debt levels in its residential business historically (net D/E of 0.1x). While MLIFE had ongoing projects of 4.3msf as of Mar'21 of which 2.8msf was sold along with forthcoming projects of 4.7msf, MLIFE's management intends to add three to four new land parcels every year from FY22E onwards. **As per management, the annual land spend is expected to be ~Rs5bn which is expected to be funded through a mix of debt and internal accruals.** Against the expected annual land spend, the new projects are expected to add Rs20-25bn of new sales potential every year to the company's portfolio at EBITDA margins in excess of 20%. The company's land banking strategy is to add land parcels through a mix of outright and joint development/joint venture (JDA/JV) agreements with landowners. **The company is also attempting to stagger payments in new land deals and linking them to approvals coming in and projects achieving certain milestones and continues to remain selective in adding projects.**

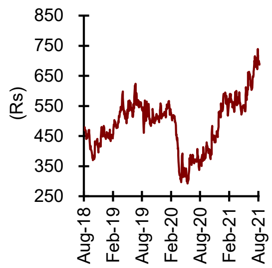
Source: Companies, I-Sec research

Price chart

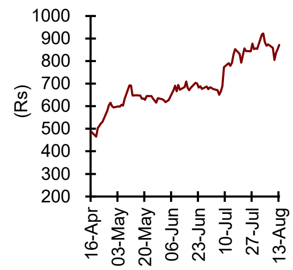
DLF



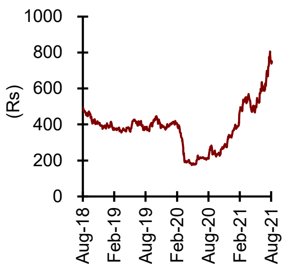
Oberoi Realty



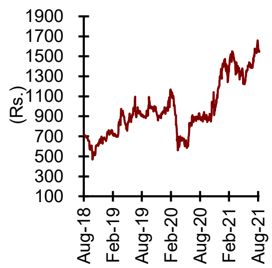
Macrotech Developers



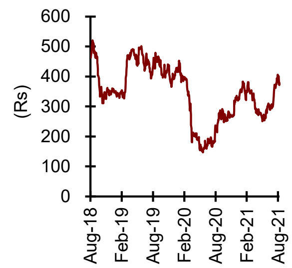
Mahindra Lifespace Developers



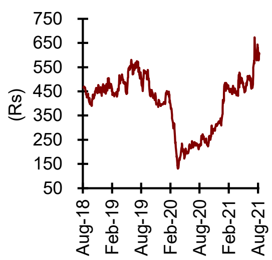
Godrej Properties



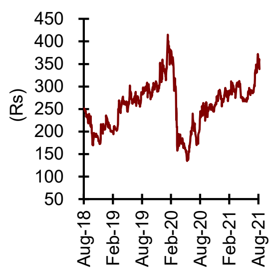
Sunteck Realty



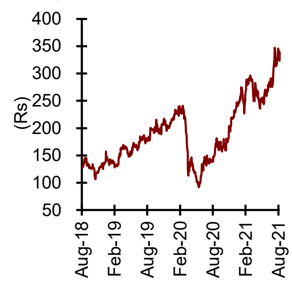
Sobha Ltd



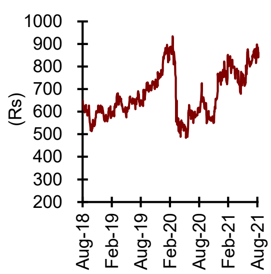
Prestige Estates Projects



Brigade Enterprises



The Phoenix Mills



Source: Bloomberg

In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #37-16 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION
I/We, *Adhidev Chattopadhyay, MBA (Finance)* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:
ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.
ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.
ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.
Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.
ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.
The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.
This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.
ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.
ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.
ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.
Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.
ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.
We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.
This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.
This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.