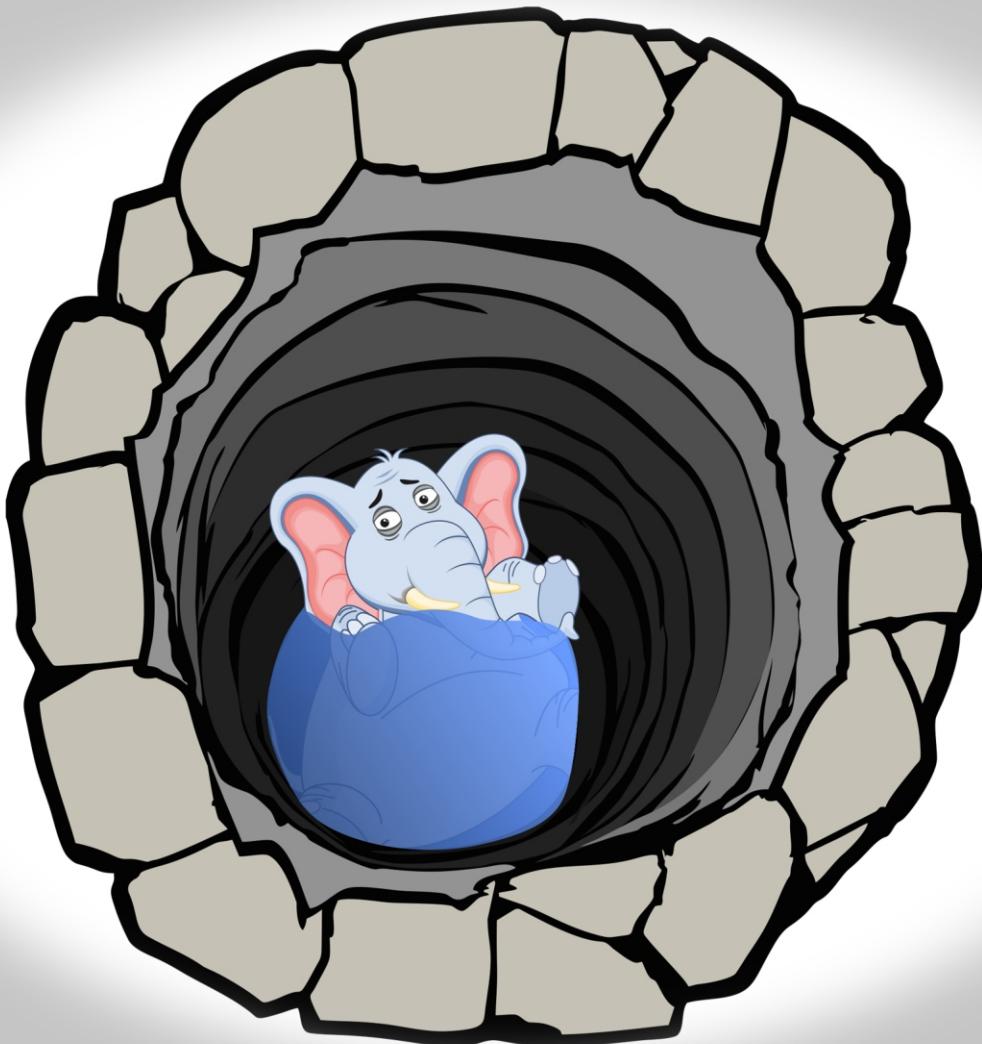


DEVELOPERS NEED TO SCALE UP SALES BY 2.5X TO STAY AFLOAT



FEBRUARY 2019



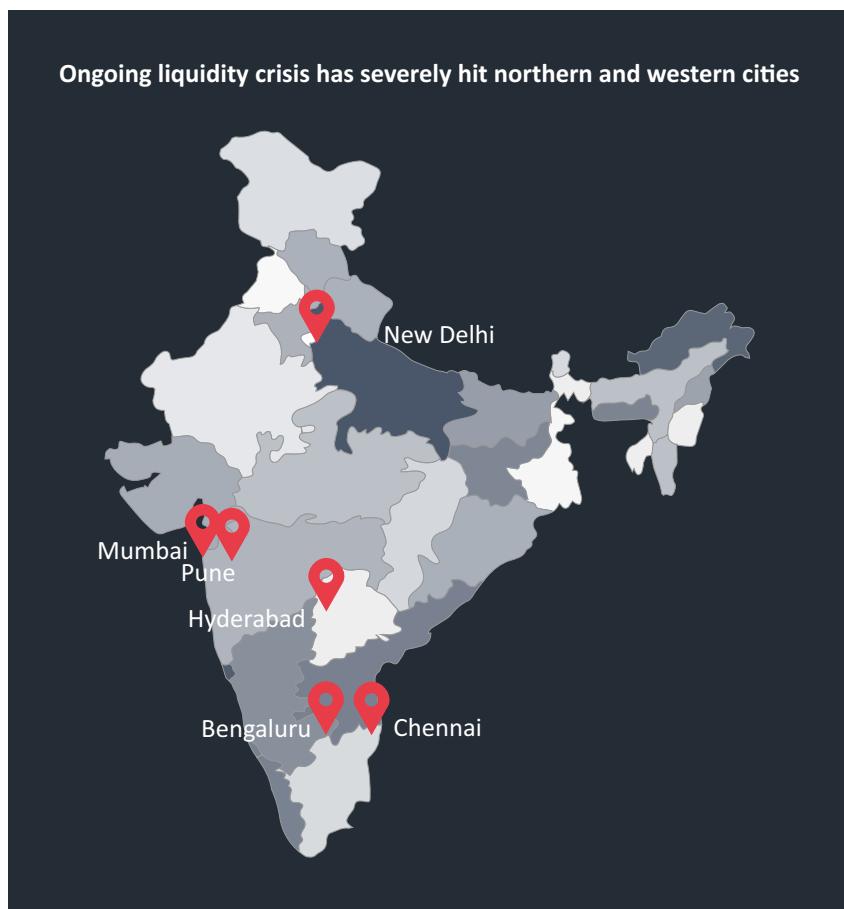
Independent Non-broking
Real Estate Research Company

IL&FS default and ongoing speculations about DHFL have made industry stakeholders anxious yet again. Moved by the upheaval we have tried to gauge impact of liquidity squeeze on the sector and developers. In the past 10 years while value of sold stock has increased by 1.56X, the value of unsold stock has become 4.72X. In terms of units, volumes of sales have gone up by 1.28X while inventory increased to 3.33X between 2009 and 2018. In the same period lending to the real estate sector has gone up from Rs 1.2 trillion to Rs 4 trillion.¹

What happened in a decade:

	2009	2018	Increase
Sales (in units)	2,17,253	2,78,989	1.28 times
Sales (value in crore)	1,31,495	2,05,792	1.56 times
Inventory (in units)	2,83,060	9,43,680	3.33 times
Inventory (value in crore)	1,64,338	7,77,183	4.72 times
Months Inventory	16	41	2.56 times
Total debt on sector (INR trillion)	1.2	4	3.33 times

Existing scenario has exposed the inefficiency within the sector. While debt has grown in a monumental manner and so has inventory, sales did not go up in the same proportion. Having borrowed money from different sources, new players kept coming in the market and kept adding housing stock into the market without any productivity. Since sales remained abysmal all this while, developers are finding it difficult to meet their debt obligations at this point.



North India (NCR)

(20 Developers)

Income	: 20,883.34 Cr
EBDIT	: 4,176.67 Cr
Rental Revenue	: 1,134.48 Cr
Debt	: 40,591.09 Cr

West India (MMR & Pune)

(34 Developers)

Income	: 33,109.83 Cr
EBDIT	: 6,621.97 Cr
Rental Revenue	: 2,938.38 Cr
Debt	: 74,503.54 Cr

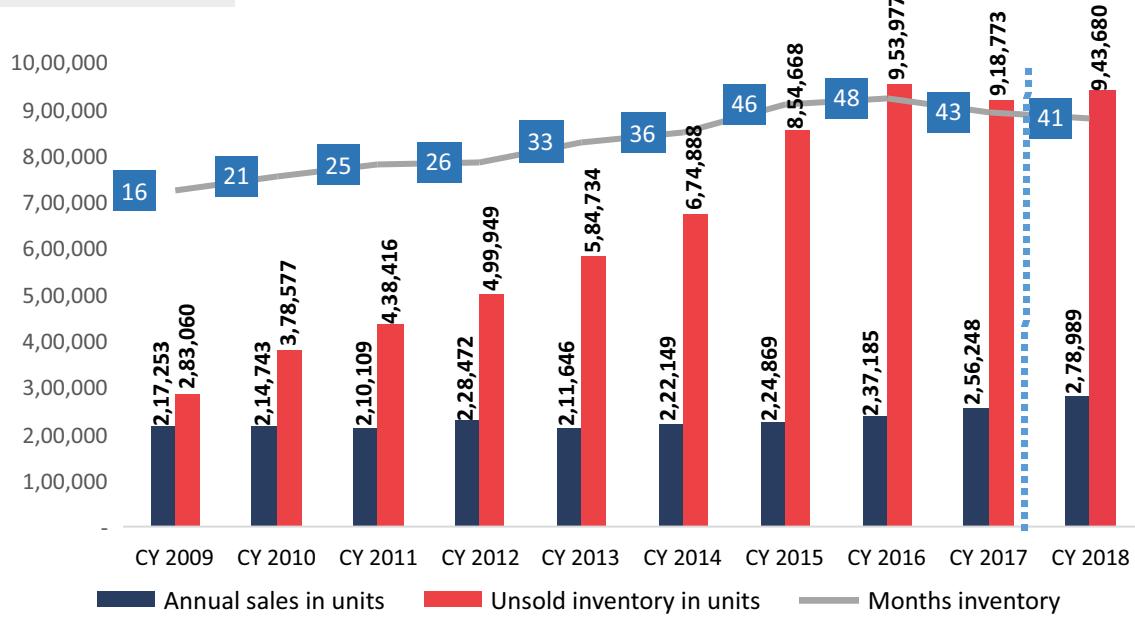
South India (Bengaluru, Chennai & Hyderabad)

(36 Developers)

Income	: 24,886.69 Cr
EBDIT	: 4,977.34 Cr
Rental Revenue	: 3,715.56 Cr
Debt	: 30,410.23 Cr

Sales: 1.3X
Unsold: 3.3X

Sales and inventory trends in units (top-8 cities)

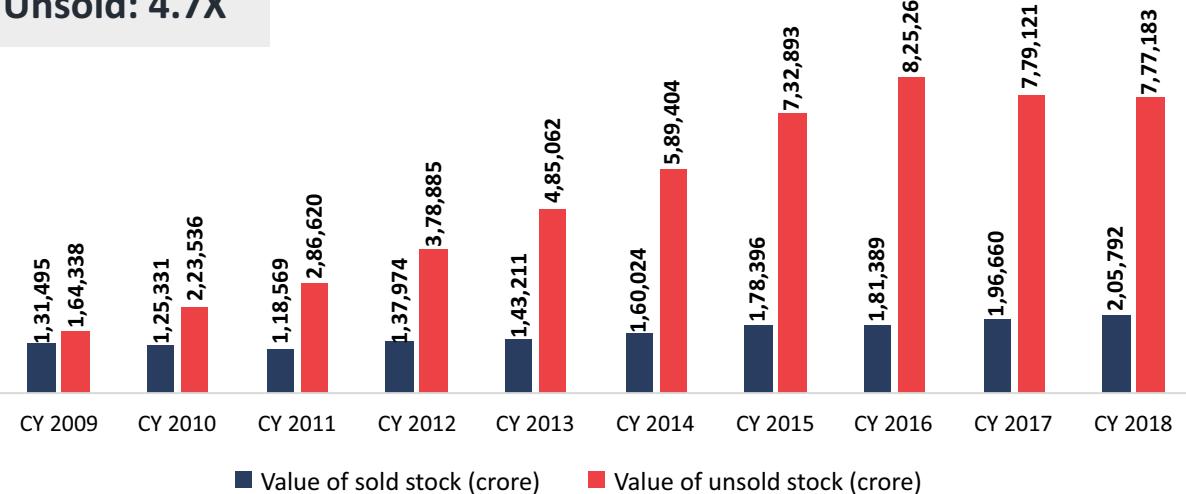


Source: Liases Foras

Sales: 1.6X
Unsold: 4.7X

Sales and inventory trends in value (top-8 cities)

Assessment of turnover (crore)



Source: Liases Foras

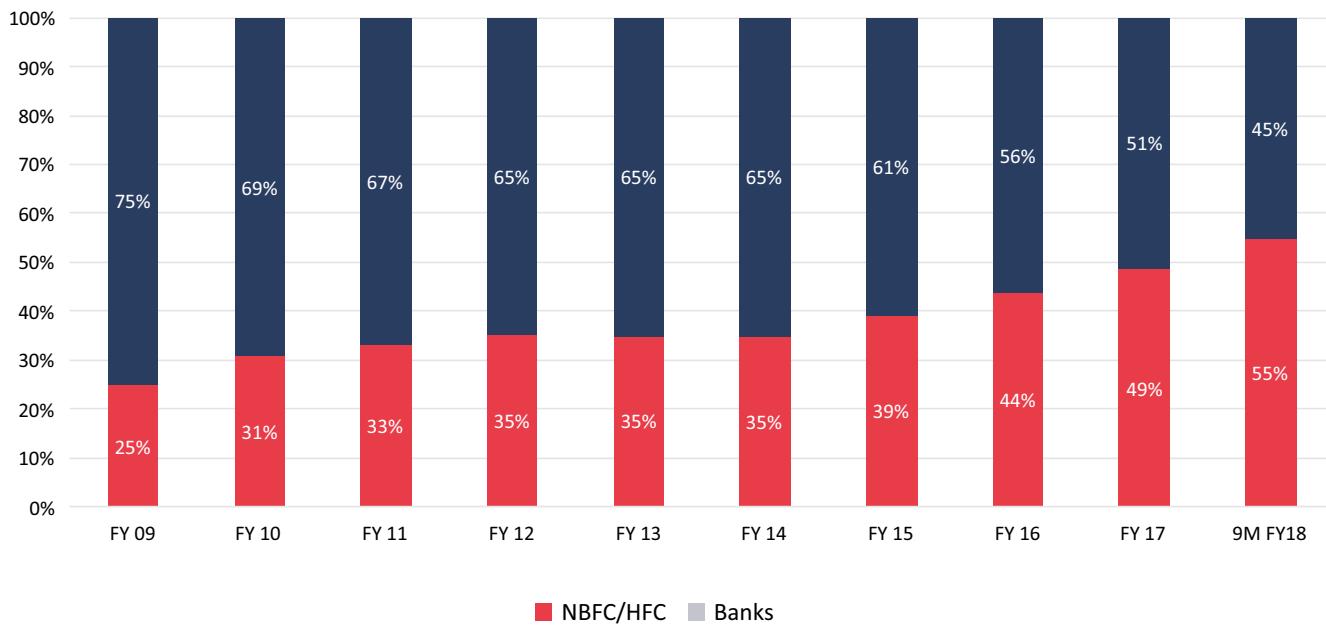
Our analysis shows that residential market generated Rs 2,40,000 crore as yearly revenue in 2018. Top-8 cities (Mumbai Metropolitan Region, National Capital Region, Bengaluru, Pune, Hyderabad, Ahmedabad, Chennai and Kolkata) cornered more than 80% of the entire business. The top-8 generated about Rs 2,06,000 crore as revenue out of the total 2,40,000 crore.

Exposure to Developer Financing

Total lending to sector increased by: **3.3X**

NBFC/HFC share in lending increased by: **7.33X**

Total investment in INR trillion



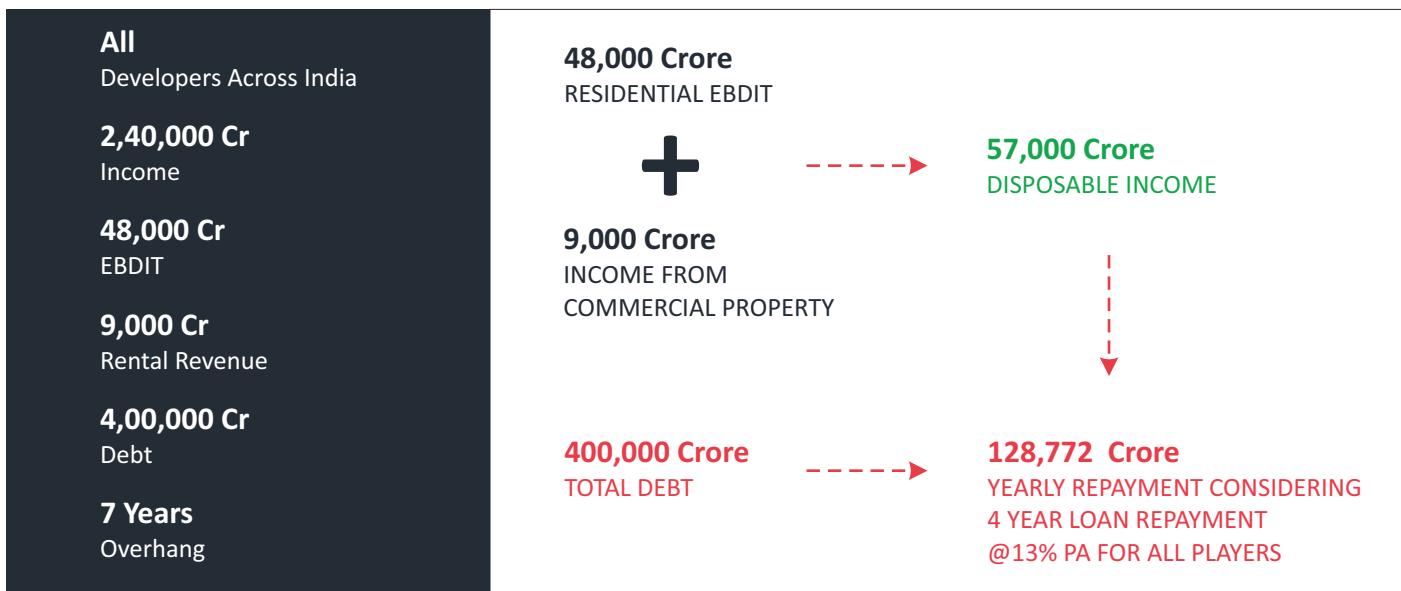
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	9M FY18
Banks (in INR trillion)	0.9	0.9	1.0	1.1	1.3	1.5	1.7	1.8	1.9	1.8
NBFCs (in INR trillion)	0.3	0.4	0.5	0.6	0.7	0.8	1.1	1.4	1.8	2.2
Total	1.2	1.3	1.5	1.7	2	2.3	2.8	3.2	3.7	4

Source: Ambit Capital¹

Having extracted important nuggets, we decided to dig deep to analyze the burden on the developers with respect to total lending on the sector. We examined performance of close to 11,000 developers for holistic view. It was also noticed that out of the total kitty of 2,40,000 crore of business, top-90 developers in the country accounted for about third of business and generated Rs 78,879 crore.

We studied exposure to both top-90 listed and unlisted developers. Data for listed companies was taken from public reports and sources, while for unlisted ones we have relied upon the charge filings that the company submitted to Ministry of Corporate Affairs.

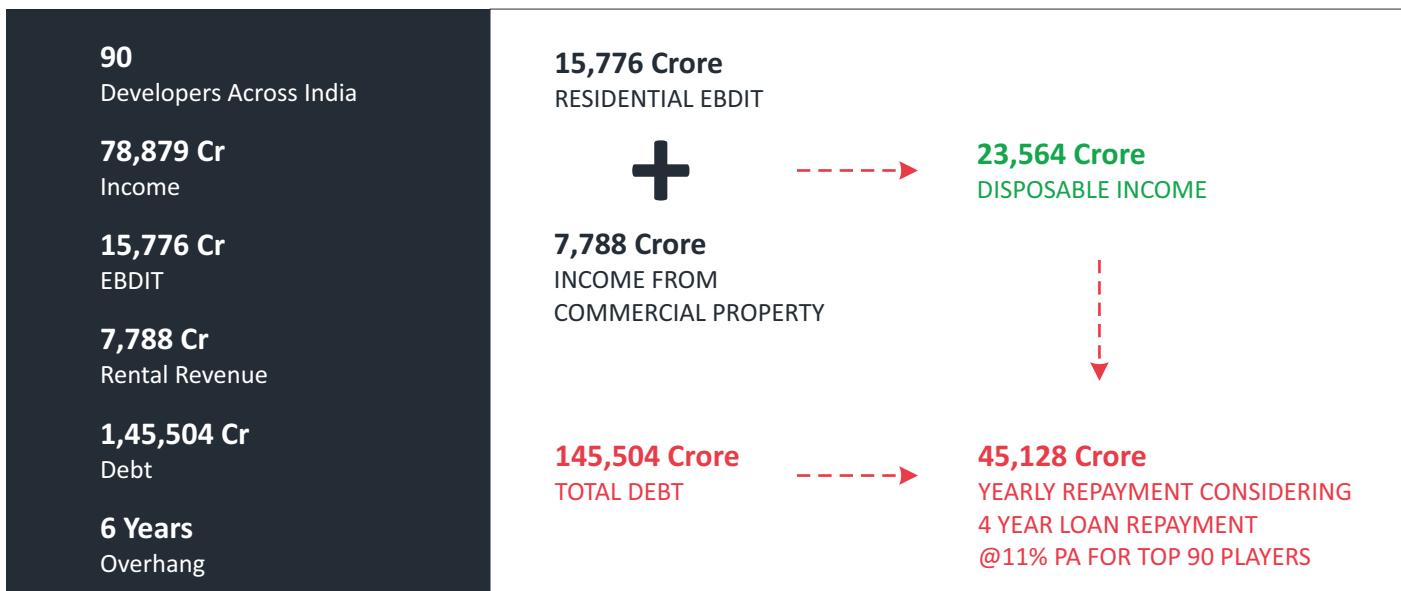
Evaluating repayment capacity of all developers²



Source: Liases Foras

Total disposable income of all developers (including their rental income from commercial properties) is expected to be Rs 57,000 crores but repayment required on their part is Rs 128,772 crores. In order to fulfill obligations, all developers will need to increase EBDIT by 2.26 times. Additionally to make profit of 15% the developers will need to increase the EBDIT to 2.60X, or need to increase sales by 2.6 times.

Evaluating repayment capacity of top-90 developers²



Source: Liases Foras

The total disposable income of top-90 developers (including their rental income from different properties) is Rs 23,564 crore but the repayment required is Rs 45,128 crore. Due to the gross mismatch it seems current debt levels are not serviceable.

In order to meet debt obligations, developers will need to increase their EBDIT by 1.92X. And to make profits to the tune of 15% the developers will need to increase their EBDIT to 2.20 times, or have to achieve more than double the sales.

Thus it feels that the situation of developers is akin to an elephant in a well which is unable to come out on its own. Somebody needs to replenish the well. But can we find cheap capital to refill the well? The existing scenario signifies that the industry is at an inflection point and is staring at long-due price correction in order to improve sales. **But is there a scope to bring down prices?**

Change in price vs land cost (a case of MMR)

	2005	2007	2009	2012	2015	2018
Kandivali Project Price (Rs/psf)	2,700	6,700	5,100	10,300	11,600	11,820
Finance Cost (Rs/psf)	446	950	1,155	2,699	3,737	3,838
Land Cost @ Saleable Area (Rs/psf)	300	1,500	1,000	2,300	2,800	2,800
Approval Cost (Rs/psf)	216	670	612	1,442	1,624	1,655
Construction Cost (Rs/psf)	1,000	1,100	1,200	1,300	1,600	1,800
Construction and Gestation (yrs)	3	4	4	5	6	6
Project Cost (Rs/psf)	1,962	4,220	3,967	7,741	9,761	10,093
Developers Profit (Rs/psf)	738	2,480	1,133	2,559	1,839	1,727
Profit Margin (%)	27%	37%	22%	25%	16%	15%

In the current scenario price correction does not seem plausible. In order to stay afloat at such low profit margins, one or more stakeholders in the industry would have to step in and take a haircut. Who would it be?



Please let us know your thoughts on our inconclusive report by sharing your feedback at contact@liasesforas.com

References

1 Ambit Capital report: https://www.propstack.com/news/wp-content/uploads/2018/02/Ambit_BFSI_Thematic_Real-Estate-NBFCs-most-exposed_15Feb2018.pdf

2 For the listed players income/EBDIT has been sourced from last reported figures. For private players value of stock sold (BT) in the last four quarters (Oct 17 – Sep 18) has been considered as income and 20% of the same has been assumed as EBDIT as per industry average. Commercial rental income has been added to EBDIT to arrive at total operating income.

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Strategic Partner : **dmg::information**

Liaxes Foras: The Pioneer in Scientific Research in Real Estate

Liaxes Foras is an independent real estate research institute having offices in Mumbai, Bengaluru and New Delhi. Liaxes Foras was founded in 1998 as a boutique non-broking real estate consultancy and has since evolved into a data-focused real estate research lab employing over 120 people. Liaxes Foras tracks and closely examines the health of the real estate sector in over 60 cities across India, including all metro and capital cities. Liaxes Foras is the official consulting partner of the National Housing Bank and has created RESIDEX.

Data & Coverage

Our database includes 125,000 projects amounting to over 50 billion square feet of real estate space, spread across 60 cities in India. Currently, we are monitoring close to 18,000 on-going projects on a quarterly basis.

PRODUCTS

 Ressex Ressex, our online data interface, provides structured solutions to day-to-day questions pertaining to real estate markets and projects.	 Desktop Valuation Desktop Valuations with comparables, is a web based valuation tool kit designed to give users the price of a property in minutes	 Desktop Feasibility Solution DFS is an analytical interface backed by granular data to assess residential project viability across 60 cities.	 Crystal Crystal is a valuation workflow system designed to streamline the interaction between lenders, valuers, and surveyors through automation and mobile devices	 Developers Ratings This product uses extensive data and analysis of on-ground performance of over 10,000 developers across 60 cities in India to help users manage lending risks	 OPPS OPPS is a data driven analytics tool to help banks, HFCs and financiers identify the potential opportunity and underlying risks while lending for home loans	 Real Estate Market Report Exhaustive report on market condition, demand-supply dynamics, price points among scores of other parameters
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ADVISORY SERVICES

 Highest and Best Use Feasibility Study Depend upon our trusted site and market analysis to identify the optimum development mix that results in the highest returns.	 Urban Planning Count on our experts to prepare detailed city development plans and financing strategies to unlock the potential of urban regions.	 Consumer and Intermediary Survey Use our structured field research to understand the spatial and location needs of your consumers.	 Product Viability We will help you ascertain feasibility of your project and circumvent the risks involved in its development.	 Preparing a Design Brief We prepare an uncluttered and financially prudent design brief to move the project to the drawing board and execution.	 Micro Market Reports We prepare an uncluttered and financially prudent design brief to move the project to the drawing board and execution.
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VALUATION SERVICES

 Technical Valuation and TEV Studies Highly qualified experts with over 20 years of experience, track records and accomplishment form the technical team of valuation.	 Retail Valuation for home loan Dedicated chartered surveyor (civil engineers) provide retail valuation to the leading home loan lenders in locations of Mumbai, MMR region, Pune and Bengaluru.	 Portfolio Validation and Risk Assessment Liaxes Foras offers data driven price and micro market risk assessment of existing portfolios of banks HFCs.
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